HOUSES OF THE OIREACHTAS

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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 2 Iúil 2015

Thursday, 2 July 2015

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.

Nexus Phase

Department of Finance - Mr. Brian Cowen

Chairman: As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session. Can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. We begin today's session No. 1, which is a public hearing and discussion with Mr. Brian Cowen, former Taoiseach and Minister for Finance. In doing so I'd like to welcome everyone to the public hearing of the Joint Committee of Inquiry into the Banking Crisis. Today we continue our hearings with senior members of the Government who had key roles during and after the crisis period. This morning and this afternoon we will hear from Mr. Brian Cowen, former Taoiseach and Minister for Finance. Brian Cowen was a TD for Laois-Offaly from June 1984 until February 2011. He held several senior positions in Government, and served as Minister for Finance from September 2004 until May 2008 when he succeeded Bertie Ahern as An Taoiseach. At this mornings session we will focus on Mr. Cowen's tenure as Minister for Finance, from his appointment until the general election of 2007, and deal with matters dealing with Mr. Cowen's tenure as Minister for Finance from 2007 until his appointment as Taoiseach, this afternoon.

Before I hear 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. 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 and you are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. 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 to your right. Members of the public and journalists are reminded these documents are confidential and they should not publish any of the documents so displayed. The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets and 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. Cowen, please.

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

Mr. Brian Cowen, former Taoiseach and Minister for Finance.

Chairman: So, again, welcome this morning, Mr. Cowen, and if I can invite you to make your opening statement to the committee, please.

Mr. Brian Cowen: Good morning, Chairman, and good morning members of the committee. I welcome the opportunity to address today's session and to assist the inquiry where I can in its deliberations. As requested by the inquiry, I have submitted two separate written statements relating to what you describe as themes and lines of inquiry which the committee wishes to discuss with me. The first written statement covers my tenure as Minister for Finance from September 2004 until May 2008 and the second relates to my time as Taoiseach from May 2008 to March 2011. I understand that at today's proceedings we are discussing my period as Minister for Finance. Next week, I am to return to deal with my time as Taoiseach. These are the arrangements that you have asked me to comply with and I am happy to do so. If I may, Chairman, as this is my first appearance before the committee, I wish to make a few introductory remarks?

I want to say, first of all, to the Irish people, that the Government I led dealt with the financial crisis to the very best of its ability. I know the crisis brought with it difficulties and problems of all kinds to many people throughout the country and as Head of the Government I accept full and complete responsibility for my role in and our response to that crisis. I am sorry that the policies we felt necessary to put in place in responding to the financial crisis brought with it hardship and distress to many people. The human cost of dealing with this crisis, which we sought to mitigate as best we could, was the most difficult aspect of the decisions we had to make. What we did was about restoring financial stability to the country. We must learn from this difficult experience and ensure that it doesn't happen again.

This exercise, however, is not just about expressing regret or sorrow but to indicate that I will be approaching all questions in as an objective and non-defensive a manner as possible. To do otherwise would not serve the interests of this inquiry or future generations. I hope also to dispel some of the assertions which have been pushed sometimes for personal or party political reasons. I think the best contribution I can make before this inquiry is to give you and the public an insight into what our thinking was at the time and what were the factors we had to consider in making decisions. We did not have the benefit of hindsight. While there is ... there was an international context to our difficulties, there is no doubt that there were failures on the domestic front also. I hope that my engagement with you here will help people to understand the nature of the problems we faced - there's never as much room to manoeuvre in the crisis as some would have one believe.

The Government I led has had these matters examined by commissioning and publishing two reports - Regling and Watson, and Honohan. We also set up a statutory commission of investigation, chaired by Mr. Peter Nyberg. He produced another valuable and substantive contribution in the examination of the banking crisis. The Oireachtas banking inquiry is another important exercise in accountability. I have always intimated, since the inquiry was first mooted, that of course I will co-operate with you as you undertake your work here. In relation to the actions I took, I want to make it clear from the beginning that nothing I have to say here should be interpreted by anyone in any way as an attempt by me to pass the buck to anyone else. Mr. Nyberg makes a very prescient comment in his report with which I fully concur and subscribe to when he says:

People in a position to make decisions are and must be ultimately responsible for them regardless of what advice or suggestions they have received. The higher and more influential their position the greater their responsibility.

It is a reality of life today that a country's economy cannot operate without a functioning banking system. The Government's responsibility was to try and save the economy. In doing that, we also had to have a banking system. I agree with Professor Honohan when he says in his report that the primary responsibility for this crisis rests with the banks themselves. It's important to recognise that, in the pre-crisis period, there was what turned out to be reckless lending by individual banks, made worse by a bonus culture incentivising short-term gains. I also accept that the Irish and European regulatory systems failed completely to recognise the extent of the risks that could materialise and to stop the over-dependence of Irish banks on overseas wholesale funding. In terms of the bank guarantee, I believe it was the most decisive step that the Government could take on that night to deal with the problem. It was clear that we were on our own. We had one shot at it. If we did not get it right, Ireland, we were told, would be set back 25 years. We had to go with the best information available to us at the time.

So, Chairman, taxpayers' money has been put into Bank of Ireland, AIB, Irish Life and Permanent and EBS building society, which will, I believe, be recovered over time. The vast majority of losses in Anglo and Irish Nationwide, totalling some €34 billion, will not be recovered. Had they collapsed, the cost to the State and the economy would have been catastrophic because of the consequent impact on the whole banking and economic system. When the scale of the losses were identified, we were in favour of imposing losses on senior bondholders. We were left in no doubt that burning bondholders would have meant no EU-IMF programme; it was one or the other. We assessed that there was a far greater financial and economic benefit to the country entering the programme at the time than to burn remaining bondholders. Nationalising Anglo Irish Bank would not have been a simple solution. There were serious risks attached to that approach too. It is now becoming increasingly clear to people that there are, or were, no cost-free or risk-free solutions. The decisions made were finely balanced and there were legitimate pros and cons with all the limited options available. No option looked good; it was a case of taking the least worst option available. I can say that the Government that I led strove tirelessly to do its duty in the most difficult of circumstances.

Our primary motivation at all times was to try to protect livelihoods as best we could and to steer a course that would progressively close the gap between what Government was spending and what it was taking in in taxes. This was made doubly difficult by the fact that the economy was contracting for a period and unemployment was rising. Added to this central task was the need to stabilise the financial system in the country when there was an unprecedented turbulence in the markets after what was described as a "once in a century event".

Chairman, I will now speak to the issues you have asked me to address as Minister for Finance. On macroeconomic policy, the budgets that I presented were built on what appeared to be conservative economic projections, targeting very modest deficits and an ongoing decline in the national debt burden. At the time, many of those assumptions proved to be overly conservative with the actual fiscal outturn being better than that projected on budget day in a number of instances. Those outcomes were targeted at the same time that the Government was putting aside 1% of our national income every year for investment in the National Pensions Reserve Fund. These were responsible fiscal targets at the time, which appropriately balanced the resources at hand and the demands for better services and infrastructure. As Minister, public investment was a major priority. This country had suffered from decades of under-investment in our physical and social infrastructure, and I was determined to use the resources at my disposal to put that right. Our rate of public investment, at around 5% of GNP, was approximately twice the European average. This was a correct level of public investment in my view, as we sought to close the infrastructure deficit, to underpin competitiveness, and to improve the lives of all citizens, young and old. I also took the opportunity presented by our economic growth to transform the funding of services for the disabled, to support child care, particularly in the early years, to improve the lives of our elderly citizens and to make the tax system fairer.

While the rate of growth in public expenditure was, with the benefit of hindsight, high, I do not recall any other public representative ever arguing in the Dáil or Seanad that I was providing too much for the old age pension, for welfare payments, for child care supports or improved services. In fact, there were demands for greater spending coming from every interest in the State, much of which could not be met.

I do regret that current spending growth was not lower during my time as Minister for Finance. However, even a slower, more modest rate of growth in spending on health and education and welfare, would not have eliminated the need for the painful fiscal adjustments we saw from 2008 on. That adjustment was driven by the global financial crisis and the collapse in economic activity, a collapse which was more pronounced in our country because of the level of construction activity taking place in Ireland at the time. When I was Minister for Finance I shared the positive view of our prospects which was held by all the main research and international agencies. But contrary to what some are now trying to suggest, I was concerned about the potential vulnerabilities and risks arising from the rapid escalation in property prices which was a recurring theme in risk assessments.

It has since been alleged that no action was taken by our Government to deal with those risks. This seems to be based on a view in some quarters, it seems to me, that I was in some way beholden to property market interests, and that is simply not true. The facts are that prior to any signs of an emerging international crisis, there were four important actions taken to attempt to minimise the potential vulnerabilities in the banking sector related to the dependence on highly valued property. The four actions were: the decision in December 2005 to abolish a wide range of property-based tax incentives; secondly, the refusal by the Government to abolish or dramatically reduce stamp duty; thirdly, the decision of the Financial Regulator in early 2007 to increase the capital requirements on banks for speculative property lending from 100% to 150%; and fourthly, the decision by Government to continue to allocate 1% of GNP every year into the National Pensions Reserve Fund. These key actions taken prior to the crisis were significant and reduced the risks and vulnerabilities of the Irish economy, without which the crisis in the Irish economy would have been far worse.

In order to refute the suggestion that no action was taken to minimise vulnerabilities, it is worth considering the significance at the time of each of the four main actions cited above. It is important to reflect that some of the opposition to these actions which, if heeded, would have left Ireland in a more detrimental position. Regarding the abolition of property-based tax incentives, those who suggest we did nothing to curb that property spiral ignore the fact that in presenting my 2006 budget, I announced the most radical abolition of property-based tax incentives taken by any Minister for Finance. I did this because I was concerned that these incentives were contributing to an over-valuation of property, with resultant vulnerabilities. This decision did not gain favour with many interested parties in the property market. It also represented a decisive policy shift, because over a long period, successive Governments since 1985 had added more new property incentives rather than engage in wholesale abolition of existing incentives. I took these and other measures to reduce the vulnerabilities of the Irish economy to the escalation in property prices, to secure a greater return for the Exchequer, to enhance equity, and to do so in a way that reflected the fact that there were over 250,000 jobs in the sector at the time.

Transitional arrangements were put in place for projects that were, at that stage, up and running or being completed, and no new projects were eligible under any of these schemes from the date I announced their abolition, December 2006. A further protection before any future proposal of this type could be brought forward was the provision by me in the Finance Bill that a cost-benefit analysis showing the economic benefit that would accrue from any such introduction would have to be shown, first of all, and that there would be an automatic three-year review after it became law. If such a provision had been in place when this type of tax relief was first introduced in 1985 by the then Government, the achievement of the economic objectives for which the schemes were initially devised could have been apparent much sooner. But in any event, in hindsight, these schemes could have been terminated much earlier. In late 2006 and up to the general election in 2007, I was also the subject of sustained criticism for my decision as Minister for Finance to resist widespread demands to abolish or dramatically reduce stamp duty on property. At that time, I accepted that the levels of stamp duty in Ireland were among the highest in the world and that this meant real consequences for people buying houses. While I agree that some adjustments were appropriate, I realise that the high levels of stamp duty were a brake on the escalation of property prices and acted as a disincentive to greater property speculation. I felt that calls for the abolition or serious reduction of stamp duty were simply irresponsible in the context of rapid property price growth and I therefore strongly resisted such demands. There is no doubt abolishing or reducing stamp duty at that time would have been politically popular. But it would also have increased the vulnerabilities of the banking system and the Irish economy to overvalued property and I therefore refused to go down that route. It's hardly surprising today that the cheerleaders for the abolition of stamp duty, or its radical reduction, are now silent on what would have been the impact on property prices or the resultant impact on the scale of the banking crisis had I heeded their calls.

The decision of the Financial Regulator at the start of 2007 to increase the capital requirements on banks for speculative property lending to 150% from 100% was a decision which I strongly supported. I accepted that this brought the capital requirements on Irish banks for speculative property lending to one of the highest in the developed countries but I believed that it was totally appropriate given the vulnerabilities of Irish banks to property prices. This was taken at a time when international agencies and others were still benign on the prospects for Irish banks. We now know that given what happened since, this action again should have been taken at the start of the period of lending growth by banks but it was a significant initiative.

The final action taken to reduce vulnerabilities was to allocate 1% of GNP every year into the national pension fund. This was despite calls from the political Opposition from time to time to use that fund for more expenditure in Ireland. This would have increased further the Government spend in the economy. The tax revenues from the economic growth were used to engage in unprecedented capital investment to provide key infrastructure such as roads, public transport projects, the Luas, the tunnel, schools, third-level research facilities, energy, communications and health. And this infrastructure has greatly increased our productive capacity and will be essential in returning the economy to a sustainable growth rate as global conditions improve.

The economy was operating at or close to its potential over the period when I was Minister. During this time the economy was enjoying conditions of full employment with an unemployment rate at 4.5%. With full employment the labour market got much tighter, which reflected in further price and wage pressures and inevitably a loss in cost competitiveness. Large public investment in infrastructure to deal with development bottlenecks arising as a result of the economy being at full tilt could not totally compensate for that fact, certainly within the same period. In my view, this investment was necessary and appropriate to continue to expand the productive capacity of a growing economy. While headline indicators suggested that fiscal policy was on an appropriate track over the period, more attention could have been paid to the underlying fiscal position and stance which was pro-cyclical. However, it must be acknowledged that few independent observers of the policy-making process, either domestic or external, highlighted that as a major concern. There was a failure to adopt policy to reflect the realities of membership of the euro. With monetary policy conditions set with regard to euro area conditions as a whole and the exchange rate no longer available as a macroeconomic adjustment tool, fiscal and other policies, for example incomes policy, needed to play a greater role in macroeconomic stabilisation and adjustment. However, such conditions do not appear to have received adequate attention over the period to 2006.

Opposition parties criticised Government during growth years for spending too little. Their new revised criticism, to fit changed times and circumstances, is that during these years we actually spent too much. Yet the facts are we recorded budget surpluses in ten of the 11 budgets up to when I left office as finance Minister. We used the period of sustained economic growth to more than halve the general Government debt as a percentage of GDP from 64% to 25% in the ten-year period to 2008. If the assets of the National Pensions Reserve Fund are taken into account, the net debt position at the time I finished being Minister was about 14% of GDP. This undoubtedly slowed the Irish economy from the rate which would have applied if an additional percent of GNP each year was allocated for more spend at the time. This subsequently gave the Government vital head room to borrow to help us through the crisis when large deficits had to be funded, even after serious annual adjustments were made to start closing the gap that had then emerged between spending and revenues.

On prudential policy, the role of the Department of Finance was to promote financial stability by developing financial services legislation where required which was implemented by the Central Bank and the Financial Regulator. The former was charged with formulating macro-prudential policy, whereas the regulator was managing individual financial institutions through micro-prudential policy. The entire regulatory system was under the guidance of the Central Bank and the Financial Regulator, which was established on the continuing principle of being independent of the Department of Finance. All of the quarterly reports prepared by the Central Bank were independent, the financial stability reports were drawn up by the Central Bank in consultation with the Financial Regulator. Briefings were provided to me as Minister based on these findings. I had and was given no reason to doubt the economic and financial stability projections contained in these. By 2000 ... by summer 2007, the Central Bank's report noted that growth in credit had started to abate, as had house prices. This was viewed as being evidence of an incremental steadying of the market. Throughout 2007 and up to the summer of 2008, third party domestic and international economic and independent reports suggested a slight slowdown in economic activity. The analysis from the Central Bank was that there would be what is termed a soft landing regarding the property market, which is usually, to be definitive about it, it is about stagnating price and gradual reduction over a period of years after that.

I agree with the conclusions of the Regling and Watson report which stated that banking practices, governance failings and financial supervision "seriously exacerbated Ireland's credit and property boom" which left the economy vulnerable to a deep crisis and depleted its fiscal and banking buffers when the crisis struck. I believe that had there been more robust independent work and scenario planning undertaken by both the Central Bank and the Financial Regulator regarding the banking system, this would have informed the silently evolving risk scenario and enabled the Central Bank, the Financial Regulator and the Department of Finance to develop timely strategic interventions, policies and strategies. There was a lack of analysis by both the Central Bank and Financial Regulator in challenging the over-concentration of risk in property and the emphasis seemed to have been more on the residential housing market than on the commercial property sector and that was a mistake. There was clearly a culture of deference in operation between the Financial Regulator and the financial institutions it was regulating.

I agree with the findings of the Nyberg report which asserts that the policy apparatus was complacent. As Minister, I should have been more doubting, more questioning by challenging the broad consensus of opinion that had developed on these matters. There were vulnerabilities built up within the banks, property prices were over-valued and there had been a gradual loss of competitiveness in the Irish economy. I believe that if the unprecedented global financial collapse had not happened, there would have been a softer landing for the Irish economy but the over-valuation of properties and related vulnerabilities within banks put Ireland in a weaker position when we had to face the global crisis. I accept that ongoing actions would have been required to address these vulnerabilities, even in the absence of the global crisis.

The views on the prospects for the Irish economy in 2007 from the OECD, from the European Union, from the International Monetary Fund, from Moody's, from the ESRI and many other commentators were conclusively positive. The advice at the time was that the balance of evidence suggested that the banks had sufficient capital to absorb the likely losses but that there were vulnerabilities and risks. With hindsight, this proved to be fundamentally wrong. However, those were the views expressed at the time. We know now that grave mistakes were made in the judgment of the capital adequacy of the Irish banks and the assessment of future loan losses. It is, however, important to note that no one in the independent authorities ever advised the Government that the capital adequacy was not sufficient or that higher capital adequacy ratios should be imposed. These lessons have now been fully taken on board and policies implemented to ensure that a banking crisis like that can never happen again in Ireland. While Government shares responsibility for its roles in these mistakes, it is noteworthy that many of the strongest critics of the Government were silent on these issues prior to the crisis and indeed were proposing measures such as a radical reduction or abolition of stamp duty which would have made the position much worse.

On the adequacy of the assessment and communications of both solvency and liquidity risks in the banking institutions and the banking sector, I state that when we joined the euro Irish banks got access to a new source of wholesale funding at low rates of interest and with no exchange risk. Integrating the Irish financial system within the euro area was always viewed as a positive development. The more integration that took place, including financial integration, the better it was deemed to be for us. The question of access to this liquidity being cut off completely was never seen as a realistic prospect in any foreseeable circumstance. When problems with liquidity arose, being part of the euro system and having access to ECB policy responses was again seen as a strength for Ireland.

Regarding solvency of the banks, the message from the authorities was that the banking system was adequately capitalised given their level of profitability, and that they appeared in good financial health. While concerns were expressed when overall financial stability was being assessed, there was no suggestion that downside risks would transform into such a critical situation for Ireland. The external surveillance mechanisms, including the OECD, IMF and

European Union, together with the ESRI, were forecasting a continuation of strong economic growth in Ireland compared to our EU counterparts. Credit rating agencies looked favourably on Irish banks. During my time as Minister, there was no consensus that we were heading for what ultimately happened.

As is noted in appendix 6 of the Wright report, the international reports on the Irish economy undertaken by the European Commission, the IMF and the OECD from 1999 to 2007 in fact commended the performance of the Irish economy, while domestic reports up to mid-2008 also talked down any idea of a hard landing for the Irish economy or the Irish property market. None of these reports made any reference whatsoever to a systemic banking crisis or a possible banking collapse.

I was not aware of contrarian views within the Department of Finance which differed in substance from the Department's overall assessment. Regarding external contrarian views, the most notable was a research paper by Professor Morgan Kelly of UCD which was published by the ESRI when it launched the ESRI summer quarterly economic commentary review of the Irish economy in July 2007. In an interview on publication of the review, the ESRI economist Dr. Alan Barrett made it clear that the ESRI did not share Professor Kelly's prognosis that house prices in Ireland over the following eight years would drop between 40% and 60% in value. Whilst the ESRI thought that house prices were overvalued by 15% to 20%, it did not believe there was going to be a sharp fall in house prices. It was forecasting a house price decrease of 3% for 2007, with it stabilising the following year. The ESRI view was that economic growth would be 4.9% in 2007, moderating to 3.7% in 2008, a growth rate which they said was consistent with a degree of stability in house prices in 2008. The mainstream view remained amongst most commentators that house price increases had been underpinned by many factors, including a strong economy, increases in employment and earnings, reductions in taxation and lower interest rates resulting from participation in monetary union. Professor Kelly's more pessimistic view proved to be more accurate, as we now know, although in his paper he said the main macro-economic effect of this as being ... he saw it as being higher unemployment due to reduced house building activity as prices fell over the period in question. He states in the paper that he remained of the view that Irish banks were well capitalised at the time.

Regarding the effectiveness of the Oireachtas, throughout my period as Minister for Finance the critique from the political Opposition was that we were not addressing economic issues quickly enough. There were constant demands for more spending. Practically all economic Private Members' motions which allowed the Opposition to debate issues of their choice in the Dáil involved demands for more public spending in the areas of health, education, transport, etc. On other occasions the Opposition was calling for more money to be returned to taxpayers. They were predicting continued economic growth and were proposing looser fiscal policies than the Government during the 2007 general election campaign. Very few parliamentary questions were put down on banking issues generally, let alone suggestions that the banking system and the economy were facing ruin. There were parliamentary questions on subprime lending, which was a very small part of the overall Irish mortgage market. The capital adequacy or otherwise of banks was not, to my knowledge, ever raised as a priority issue.

I was in favour of improving opportunities for better Dáil oversight of the annual budgetary process as Minister for Finance. I introduced new arrangements whereby, from January 2006, I met with the Committee on Finance and the Public Service to discuss the economic and fiscal background to the 2006 and two subsequent budgets. From 2007, individual Ministers would publish an annual statement on the outputs and objectives of their Departments and from 2008, the actual outturns. These statements were then presented to the relevant Oireachtas committee along with the Department's annual Estimates. After these individual examinations the Oireachtas Committee on Finance and the Public Service would co-ordinate the preparation of a report to the Dáil on the outcome of these deliberations. I instituted those changes to meet the desire on all sides of the House for better debate, better scrutiny and better results from the raising of tax and spending of public money in the State.

During my time at the Department of Finance, there was a recognition that keeping tax levels lower generated economic growth which, in turn, produced tax revenues to fund public expenditure. Despite the obvious international risks, the outlook was broadly positive and the budgetary strategy allowed for significant policy initiatives. The Department was advising that spending growth should not exceed growth in revenues. There was room for substantial sustained infrastructure investment consistent with projected levels of economic growth but at the same time, keeping the burden of taxation and debt at reasonable levels. The Department was expressing caution regarding the economy and the need to keep the budget balanced at a level which could cope with any slowdown in growth that may occur over the period ahead at that time. Department views with ministerial sign-off were submitted to Cabinet in the annual June memo on budget strategy, but after Cabinet discussion and subsequent bilateral discussions on the departmental Estimates, spending and tax relief outlined in the December budgets were above that advocated in June.

Key drivers for public policy, when asked about that ... obviously, programmes for Government and the social partnership processes, which included spending and tax expenditure commitments, were drivers of Government policy. The enlargement of the EU in 2004 led to significantly increased net immigration to Ireland in the following years. At the same time, our own population was also increasing and, indeed, emigrants coming back home again. This required expansion of day-to-day public services and capital investment needs in housing, education and transport, for example, among many others. All this left us more vulnerable than would otherwise be the case to deal with the current economic challenges. However, there was a limited amount of formal analysis and advice on fiscal risks outside of the June memo for Cabinet.

Regarding the interaction with the Central Bank and the Financial Regulator, the Central Bank was responsible for overall financial stability assessment, the Financial Regulator was responsible for day-to-day supervision of the lending institutions. I was aware that when financial stability reports were being compiled, that the Central Bank and the Financial Regulator interacted on that exercise. The Central Bank issued quarterly bulletins and financial stability reports to the Department of Finance. The Governor of the Central Bank would update me, usually around the time of quarterly bulletins being issued, and before budget time, he would also formally issue a pre-budget letter setting out the overall stance of the Central Bank on the economic and budgetary situation. There was contact between the Financial Regulator and the Department of Finance at official level, as one would expect. During my tenure as Minister, I met with the chairman of the Financial Regulator on three occasions to discuss IFSRA business at the time. I would have expected that any concerns would initially be escalated through the existing channels of the Central Bank and Financial Regulator through the Secretary General of the Department. Any briefings I received from the Governor of the Central Bank and through the financial stability reports were overall conclusively positive.

There was no evidence from any of the reports already completed on the banking crisis that the Financial Regulator did not have adequate powers to deal with the emerging situation, if it had been analysed and identified at the time. The principles-based approach to regulation, which operated in Ireland and in many countries throughout the world as an orthodoxy, was deferential in its report here in Ireland towards financial institutions. Processes were checked but outcomes and risks that the banks' behaviour was causing were not identified and corrected. Both the Central Bank and the Financial Regulator had significant resources in terms of dealing with supervision and regulation of lending institutions. The Department of Finance primarily saw its role as preparing any legislation that the Central Bank and Financial Regulator might seek. It did not see its role as one of second-guessing the work and assessments of the Central Bank and the regulator, which were independent, separate and had specific statutory responsibility within this area. It cannot be said that the supervisory practice was effective since the analysis concentrated on liquidity being the problem, without adequately preparing for a situation where the whole financial system was at risk. The change which saw the banks accessing increased amounts of wholesale funding did not prompt a review by the authorities as to what wider effects a property downturn would have on the capital adequacy of the banks and there was insufficient first-hand evidence available about the deterioration in the banks' risk management policies. Worst-case scenarios were not worked out because of the general regulatory approach which relied too heavily on trusting the governance mechanisms within the banks themselves.

There was no indication of any significant financial or banking problems on the horizon before 2007 when the US subprime mortgage crisis impacted the global banking system. This had the effect of dramatically reducing liquidity within and between banks throughout the eurozone area. While there was a settled view that Irish banks had not acquired any of these toxic assets, Irish financial institutions were not immune from the impact of interbank lending and the closing off of traditional liquidity channels. The domestic standing group was established in 2007 when I was Minister for Finance and sought to enhance cooperation between the Central Bank, Financial Regulator and the Department of Finance in light of the emerging financial situation across Europe. The group was monitoring and continuing to analyse the liquidity issue which was impacting banks right up until the crisis in September 2008. There was a view across the board that Ireland's banks were well capitalised and this view was shared with me as Minister for Finance throughout this period. As Minister for Finance, I attended monthly Eurogroup and ECOFIN meetings which discussed economic policy, taxation and the regulation of financial services across all EU member states. During the period 2004 to 2007, Ireland comfortably met the revised Stability and Growth Pact targets of having an annual debt-GDP ratio of less than 60% and an annual deficit of under 3% of GDP. During late 2007 and early 2008 the work of domestic standing group remained focused on liquidity and contingency planning, including the impact of ELA on the confidence of an institution following the Northern Rock scenario in the UK.

During this time, the European Central Bank was provided supplementary liquidity via long-term refinancing operations to the eurozone financial system where markets previously provided same without any problem. The memo of understanding which was agreed with other EU states on the issue of banking was operated by the domestic standing group at a national level. It must be stressed that national or institutional responsibilities did not change under this memorandum. With the enormity of the financial crisis which emerged across Europe in September 2008, each member state became focused on national stabilisation measures. As a country, Ireland was on her own. DSG officials worked on all issues arising. During my time as Minister for Finance, the work intensified and a liquidity group was established in early 2008 to obtain and disseminate information on liquidity developments from the main credit institutions and to identify any potential problems. At no point during my time as Minister was it thought by the authorities that any of the banks were facing imminent solvency risks or that there was a fundamental threat to the entire financial system in Ireland.

The expert advice received during this time included the OECD, European Commission and IMF, who were, in overall terms, positively disposed toward Ireland's economic and financial situation. The relationship of the Department of Finance with the banking sector and the property sector was primarily through their federations - the Irish Banking Federation and the Construction Industry Federation. Individual banks dealt with the Department through contact with the relevant officials. My own interaction with banks was seldom and infrequent. Every year the Minister for Finance would receive many pre-budget submissions in writing from economic and social actors, including the IBF and the CIF. The main groups would be met every year by the Minister for Finance at meetings attended by officials where oral presentations would amplify the written submissions put forward. The incumbent Minister for Finance would always be, from time to time, a guest speaker at IBF or CIF functions or an awards ceremony or whatever. As Minister for Finance, I regarded my relationship with these two sectors as being appropriate. Their access to the Department was in no way different from how other organisations of economic importance were dealt with. Thank you, Chairman, and I am here to answer any questions you have.

Chairman: Thank you, Mr. Cowen, for your opening comments this morning. I just want to lead off with one question and then I'll invite Deputy O'Donnell and Deputy Higgins, who are our lead questioners this morning, to open up their line of questioning with you. Mr. Cowen, you were appointed Minster for Finance in September 2004 after being Minister for four other portfolios. Did you feel you were appropriately skilled for the task of managing financial stability or understanding financial regulation and how much reliance did you place on advice from the Department of Finance, Central Bank and Financial Regulator, and what was the perception of the advice that was being given to you?

Mr. Brian Cowen: Well, Chairman, as you say, I had been in Cabinet - a Fianna Fáil-led Cabinet - since 1992. I'd served in spending Departments and the Department of Health. I'd been a Minister for Labour, which had me dealing with the social partnership process, getting ... and knowing a lot of economic actors in that sphere of influence. As Minister for Transport, Energy and Communications, I had responsibility for all of the semi-State sector at a time when it was opening to competition and there were new policies being put in place and challenges for all of these semi-State bodies. I was also Minister for Foreign Affairs where, as a member of the General Affairs Council at Europe, for example, you'd be preparing for summit meetings of Heads of Government and State. It also involved a lot of trade work and working abroad on behalf of the country with other delegations, including trade delegations, meeting a lot of trade representatives who were working on behalf of Irish agencies. And I then became Minister for Finance. Now, I don't know is there an identikit as to what qualifies you to be a Minister for Finance but I certainly was a person who was *au fait* with the workings of Cabinet, with the processes of budgets, having negotiated on the other side of the table with Minister McCreevy and, so, you know, I think my experience was, compared to others, as much as anyone else. I'm not a qualified accountant, which probably is helpful. So it's a question of political direction and leadership of a Department, which I was asked to do. So, you know, that's ... obviously I felt I'm qualified.

Chairman: And on the matter of the advice that you were receiving from the Department of Finance, the Central Bank and Financial Regulator - and I probably particularly put this to when you came in the office of the Minister for Finance - some evidence and testimony that would have been brought before us, and even the Wright report and Nyberg, would indicate that, as early as 2004, the indicators were there that there was serious problems coming down the line. When you came into the Department of Finance, were you getting advice to ... in that regard?

Mr. Brian Cowen: Well, I don't agree that the advice I was getting was that there were nothing but serious problems coming down the line.

Chairman: I'll correct myself. The reports would indicate that there were problems coming down the line in the way that the structural ... the budgets were actually put in place at the time.

Mr. Brian Cowen: They were also indicating other things. I mean, what I've noticed by the committee, if I may say so, and obviously you've your job to do and I'm not telling you how to suck eggs, but you emphasise some parts of a report where issues are raised but you don't go on to see what the conclusions are and see what's a broadly-----

Chairman: Well, Mr. Cowen-----

Mr. Brian Cowen: -----what's the assessment.

Chairman: -----we-----

Mr. Brian Cowen: But anyway, that's a matter for me.

Chairman: I ... I would ask people to make their own judgments when the report is actually concluded and the committee has not expressed any opinion, one way or another, and witnesses that come in before here will be given as much time as they wish to respond to any matters, so I would maybe-----

Mr. Brian Cowen: Well, the point I'm making, Chairman ... I don't really ... I'm not in any way questioning the methodology, I'm just making the point that, having looked at it, one would not think that there was full employment, one would not think that we had created 580,000 extra jobs, one would not think that we had record foreign direct investment coming into the country. There obviously are risks at all times. In a small, open economy like Ireland, risks have to be assessed. It is true, in the context of the work that this inquiry has to do, that there was a misjudgment of risk in relation to the banking sector, a misjudgment of risk in relation to the cross-border effects of globalised capital markets. We weren't unique in that - that's the reason why we had a global financial crisis - but I take the point that, you know, I'm not here to suggest that all was well; otherwise we wouldn't be here in the first place. But I do make the point that if you look in a balanced way at the assessments of risks, that whilst risks are mentioned in various stability reports, you also look at positives and you see what the overall assessment is.

To answer your question directly, the Financial Regulator and the Central Bank had been set up in this new statutory arrangement 2003 and was bedding in, I suppose, when I arrived. It was clear to me that there were good working relationships between both offices but that the heads of both sides were working hard to make sure that there was a good relationship established. I was never ... it was never indicated to me during my time as Minister that there were problems in that area. As you'd know from the evidence that has been given by the personnel concerned in these organisations, there were clear statutory responsibilities that they both understood.

And the question of the Department of Finance advice is obviously you take advices from everywhere, you take ... and you'd obviously take it from your Department. But at the end of the day, Government makes decisions, ultimately, based on not just technocratic advice but where they see identified need. We have a democratic mandate here as public representatives to address the needs of the people. And I was very much of the view that to build in the gains that we had built up over previous years we had to play catch-up. We had, for the first time, in ... probably since the history of the State, a rising population in our country. We had overcome the historic problems of under-investment and under-employment in Ireland. We were, thankfully, having an expectation where we could marry responsibility with ambition and there was no doubt in my mind that there was a need to make sure that the benefits of our economic prosperity were broadened to the greatest number of people possible within our stay.

Chairman: Okay. Thank you Mr. Cowen. Can I just deal with one other matter and then I'll move on to Deputy O'Donnell. In your statement you said, under point 59, that and abolishment or a reduction of stamp duty would have been irresponsible before 2007 elections and that you strongly resisted such demands. How did you feel when the Taoiseach at the time, Mr. Ahern, gave an interview to the *Sunday Independent* on 27 April 2007 and during this announced the reform of stamp duty, or some change to the regime if the Government were returned? Were you informed by Mr. Ahern that ... of this announcement in advance?

Mr. Brian Cowen: I was delighted he didn't go as far as the Labour Party and Fine Gael at that time; it was really a crazy proposition that they were coming up with, but it was consistent with the Fianna Fáil position which was ... and, indeed, the Government position, which was how do we give a targeted initiative to first-time buyers. How do you help people get on the property ladder on the first rung?

Chairman: The question I asked you, Mr. Ahern, were you informed of that in advance by Mr. Ahern?

Mr. Brian Cowen: Oh, absolutely ... we were very close then.

Chairman: Okay, thank you. Deputy O'Donnell.

Deputy Kieran O'Donnell: Welcome, Mr. Cowen.

Mr. Brian Cowen: Hello.

Deputy Kieran O'Donnell: Do you believe that there was a property bubble after the period in which you came in as the Minister for Finance from '04 on?

Mr. Brian Cowen: Yes. As I said in my statement there was ... the ESRI's view was that there was an over-valuation in property of between 15% and 20% as of 2007.

Deputy Kieran O'Donnell: And the ... in your statement, you say that you were concerned with "the potential vulnerabilities and the risks arising from the rapid escalation in property prices". You commissioned two reports around tax incentives: Goodbodys and Indecon. And your predecessor, Mr. McCreevy, who we had here yesterday, said that he was going to abolish them in '04 but he extended them in '06. Why were two reports needed? You went in as Minister for Finance in September '04 knowing that the tax incentive schemes were to finish at the end of 2006. So why did you commission two reports? And why did you extend the deadlines to 31 July '08, another 18 months?

Mr. Brian Cowen: You know, there's a misinterpretation on the extension. That related to transitional issues, but I'll deal with that in the reply. Firstly, when I became Minister of Finance, this issue of the impact of property reliefs was brought to my attention, or certainly it's an issue that officials were bringing to my attention in the context of how we could try and deal with accelerating property prices - in some way, try and take demand out of activity, in some way. As you know ... as you say in your question, there had been previous ... since '85, we've had these ... '85, I think your own Government was in office at the time ... but I ... there were ... there was a good case, from time to time, for some ... for some of these schemes. I mean, I remember in '87, when we came into office, the dereliction and all up along the ... the Liffey, from Heuston right down to the docks, for example. There was ... you know, so the need to bring in urban renewal schemes, you know, had their place, both in large towns and in cities. And, in fact, when I ... the reason why I commissioned the report, to answer the question, is that I wanted a comprehensive assessment as to where we were at with all these schemes. Now, when you say they were due to be ... due to be ... go in '06 anyway, they were due to go in '04 too. They were due to go in '02.

Deputy Kieran O'Donnell: I'm not going to-----

Mr. Brian Cowen: But the reason ... the reason why-----

Deputy Kieran O'Donnell: Your predecessor had extended it.

Mr. Brian Cowen: I'm not ... yes, I'm not ... I'm not talking about that. I'm saying ... what happens in situations like this, if you don't have a systematic review and objective analysis rather than anecdotal stuff, you end up probably extending it again because there's stuff in the pipeline.

Deputy Kieran O'Donnell: But it was ... but it was against the backdrop, Mr. Cowen, of an escalating property bubble in that period.

Mr. Brian Cowen: Yes, and I ... yes, that's right, and that's why I reviewed them. That's the way I did business. Secondly, to answer your question, when I got the ... when you get the reports-----

Deputy Kieran O'Donnell: Yes, but the report wasn't ... the report wasn't ... effectively, when you came in as Minister for Finance, there was well over two years to go before the schemes were to conclude.

Mr. Brian Cowen: Yes.

Deputy Kieran O'Donnell: You could have just ... that gave people plenty advance warning. So why did you literally ... the reports weren't ready until the end of '05-----

Mr. Brian Cowen: The reports were ready in June '05.

Deputy Kieran O'Donnell: June '05.

Mr. Brian Cowen: They fed into the budgetary process for '05, which is what I asked for. And the reason why I did it, Deputy, was that that's the way I ... to do a comprehensive review of what's happening. For example, some of the schemes were kept for another while, like the nursing home scheme. We wouldn't have been able, if you were depending on public State tendering and doing it in the traditional way, we wouldn't have produced the number of nursing home places as quickly as we needed to produce them at the time when the demand was coming up in the system. That's very clear and that's accepted in various Finance Bill discussions that took place at the time.

Deputy Kieran O'Donnell: Why did you ... well, the various----

Mr. Brian Cowen: For example ... that's just an example where you keep some. In other words-----

Deputy Kieran O'Donnell: Why did you ... why did you extend?

Mr. Brian Cowen: I didn't extend. And let me explain that to you. The situation was that the reports stated that because there's 250,000 people employed in this process, you don't pick an arbitrary date and say, "Everything done by then," because what happens then is you have people rushing to do that work within that period.

Deputy Kieran O'Donnell: But they would have been aware ... they would have been aware-----

Mr. Brian Cowen: Sorry, Deputy, I want to explain. I do need time to explain this, you know, and there's no problem explaining it, if you just hear what I have to say. The reports are very clear. One recommendation ... one of the economic consultants says that you should, as part of getting rid of them, the existing ... I'm talking about pipeline projects only, not new projects, ones that are up and running where you have reasonable foreseeability rules in place regarding taxes ... tax law and all the rest of it. One of them was saying you extend that out for five years and just give 50% relief for these pipeline projects. There was another report saying no, you ... on other reliefs, saying you keep it going at 100% for 17 months beyond the date. So what you have to do is, where you have pipeline projects, what do you do to taper this out in a way that won't have an unforeseen consequence, and have some reference to the employment-----

Deputy Kieran O'Donnell: But in the limited time-----

Mr. Brian Cowen: No, let me explain it to you. And I'm sorry you've limited time. I'll stay here as long as you wish. Don't worry about that.

Chairman: I know that. I appreciate that.

Deputy Kieran O'Donnell: Well, my time is limited.

Mr. Brian Cowen: I know that.

Deputy Kieran O'Donnell: My time is-----

Chairman: And, sorry, the-----

Mr. Brian Cowen: You know ... I'm answering the question-----

Deputy Kieran O'Donnell: If the Chair will allow me to remain all day-----

Chairman: One second ... I'll stop the clock. Hold on a second.

Deputy Kieran O'Donnell: -----I'll stay here all day.

Chairman: This is the first time I used the gavel since the thing actually started. Mr. Cowen, if you can refer your responses through the Chair.

Mr. Brian Cowen: My apologies, Chairman.

Chairman: Deputy, if you stop ... you'd actually have more time if you stopped talking about your time to ask questions. So what I'll do is I have the clock stopped and I will give a degree of flexibility and I do appreciate your comment, Mr. Cowen, that you are here all day and you're here all day Wednesday and I know that you're being very flexible with the committee in that time. So there will be flexibility.

Mr. Brian Cowen: Okay.

Chairman: Back to yourself, Deputy.

Mr. Brian Cowen: Well, the thing about this is ... pipeline projects ... I brought in the Finance Bill ... 15% of the work had to be completed, okay, before you became eligible on the transitional one and then you had, the following year, 75%, and the following six months, 50%. That was a medium ... a *via media* between the two recommendations for transitional projects only. We abolished the schemes, Deputy. It was a dramatic policy shift.

Deputy Kieran O'Donnell: In the ... can I just-----

Mr. Brian Cowen: There's no question about that. And that was against a background of previous Ministers of all political persuasion expanding them.

Deputy Kieran O'Donnell: Well, very simply then, Mr. Cowen, in the ... Budget 2004, that your predecessor came in, he mentioned about the 15% as well. So all these people that would have been developing would have been fully aware of this back in '04. So, in very simple terms, are you satisfied ... and do you still stand over extending those schemes to the end ... to July '08?

Mr. Brian Cowen: Well, I can't allow the continual misrepresentation that I'm extending schemes when what I'm doing is putting in transitional measures, which is the normal thing you do when you're bringing schemes to an end, Deputy. The schemes were brought to an end. There are pipeline projects where you need to have transitional arrangements. You are legally required to do that or you'll end up in the courts from those who are involved in those projects. So that's the reason why ... and the extension was in relation to a *via media* between recommendations from the consultants themselves as to what the time lag should be, and it's totally ... totally defensible and totally logical.

Deputy Kieran O'Donnell: Can we move on from that point? Can we move on to that point? Your predecessor, Mr. McCreevy, in here yesterday, stated that he left the public finances "in an exceptional[ly] healthy state when I ceased [to be] Minister of Finance in September 2004." Do you agree with that statement?

Mr. Brian Cowen: Absolutely.

Deputy Kieran O'Donnell: And do you ... do you believe that the policies that you pursued contributed to the property bubble and the crash of the Irish economy?

Mr. Brian Cowen: I agree that a property bubble emerged during my time and that it was as a result of a number of factors which have been outlined. If you have ... let's be clear about this. In the late '90s, the total capacity of the building industry to produce houses in this country was 17,000 per year. Even at that stage, the demand was estimated at 28,000 per year. Capacity had to be ramped up for supply to meet demand. When you look at demand throughout the noughties, from ... during my time and before, if you look at house formation, you know, the number of people who were likely to set up home, take between 15 and 34 - 1.5 million people. You had people coming home to Ireland to take up good jobs who were looking for homes, who unfortunately had to leave Ireland before and unfortunately have had to leave ... some have had to leave again. We had ... we had immigrants ... after 2004, we had the highest rate of immigrants coming into the ... coming into Ireland, over any other EU country, proportionately. So, what I'm saying to you is, if you want to meet demand, you have to increase supply.

Deputy Kieran O'Donnell: What policies-----

Mr. Brian Cowen: And the policies I pursued, as I've stated to you, in relation to vulnerabilities that were emerging, I've outlined in detail in my speech. I've also stated that with hindsight, Deputy, with hindsight ... and I can only deal with, for example, property tax initiative ... incentives when I become Minister. With hindsight, you could say those should have been looked at before - but there was no one from the Opposition saying that, by the way - but, also, we should have constructed them first in the way that they now must be constructed legally, where any property relief in the future must have an *ex-ante* cost-benefit analysis and can only last three years or will lapse automatically without a review that confirms benefit exceeds cost. That's just a prudent review mechanism. It's not that people were trying to do wrong when we had the other ones. They did a lot of good. In 1987, I can remember being a member of this House and never thought I'd see unemployment coming down into single figures again in my life, from the mid-'80s. And all of ... so those schemes played their part. The problem was that in some cases - and it's acknowledged in the consultancy reports that whilst they did good work - that the economic objectives had been attained and that you don't need these prime-pump arrangements at a time when growth becomes established.

Deputy Kieran O'Donnell: Can we move on? In your statement, you mention that your budget was based on responsible fiscal targets at the time. However, during the course of an interview, in the Wright report ... and if I could take you to Vol. 2, page 39. And this is a statement that David Doyle, the general secretary of the Department of Finance in your time ... he states that "In 2005[-2006] the Minister was advised [which was your good self] that the country was depending on unsustainable tax revenues that the economy had been dramatically over-heated and that problems would emerge which would be due to domestic policies and that a more sustainable fiscal position had to be maintained." And if I follow on, on page 41, which is from the Wright report, "Generally speaking, we found [the third last ... the last paragraph] [we found] that the advice prepared by the Department for Cabinet did provide clear warnings on the risks of pro-cyclical fiscal action." Now, can I ask you, bearing this in mind and the various budgets in '05 and '06 and '07, was it responsible when effectively that the cyclical taxes were going up from, in your period, from 25% to 30% of total revenue, stamp duty had gone up from 5.5% to 8% of total revenue, and CGT from 4% to 7%? And yet, these were unsustainable taxes that in ... from ... in the years prior to you ... to your taking office, we'll say, Minister for Finance, in '03 and '04, spending went up by 5% and 7%, but '05, you rose it by over 9%, 2006, 11%, 2007 over 12%. So, do you still stand over that your budget was based around responsible fiscal targets?

Mr. Brian Cowen: Yes, I stand over the fact that at that time ... I'm here to give contemporary thinking that ... I'm not here to put the benefit of hindsight, that we now have the financial crisis and a totally different situation.

Deputy Kieran O'Donnell: But-----

Mr. Brian Cowen: But please Deputy, if we want me to answer the question-----

Chairman: Please allow the witness time to respond.

Mr. Brian Cowen: It took you five minutes to ask it. So the question ... the question is ... or the reply I want to give to you is; they were responsible on the basis of a mid-term review for a ... for the ... an outlook for the economy, that was still talking about 4% and 5% growth. I mean in 2007, in your own manifesto, Fine Gael manifesto, you said, economic growth between now and 2013 will be at 4.1% per annum-----

Chairman: Mr. Cowen, Mr. Kenny will be coming in in due course to talk to-----

Mr. Brian Cowen: He mightn't know that, you see Chairman. He might not know.

Chairman: Please Mr. Cowen, now, Mr. Kenny and other .... we'll be dealing with the Fine Gael manifesto and other people will be dealing with the Labour Party manifesto-----

Mr. Brian Cowen: Well I'm simply ... sorry Chairman if it's an uncomfortable fact of life, but I'm trying to-----

Chairman: Sorry, Mr. Cowen, now a second. I'll ask you to come back to the question, Deputy O'Donnell asked you a question. Can you refer to the question, we deal other witnesses with regard to the hearing?

Mr. Brian Cowen: The question is, the question is were they responsible targets? And they were responsible targets at the time. In fact, the outturns were more positive than the targets that we set. I set for modest annual deficits, we came with surpluses - 1.2% in '05, '06, 1.1% in '07. They were surpluses, in other words, even allowing for what people were predicting would be revenues, they were stronger than that. And some of the revenues, yes, did go towards wider social and economic inclusion issues. I mean, I ... I respect Department officials, they have a job to do. We're there as the democratic Government and we have to address needs and we have to make political decisions, policy decisions, about what we think is the right thing to do. Now none of the ... nor would you expect them to, none of the strategies set out by the Department of Finance had made any provision for child care initiatives, for example. Did we need ... did we need to address that issue as a matter of urgency? I believe we did, we had 300,000 more females participating in the labour market over in the previous ... over that period of ten years. Secondly, there was no provision at the time when I was Minister for Finance, that we'd have a four-year disability initiative.

Deputy Kieran O'Donnell: But, but Mr. Cowen-----

Mr. Brian Cowen: We made those policy decisions Deputy-----

Deputy Kieran O'Donnell: Mr. Cowen, that's not the basis of my question and you know it-----

Mr. Brian Cowen: -----in the context ... It is the basis.

Deputy Kieran O'Donnell: Chairman, can I ask the question? That's not the basis of my question.

Mr. Brian Cowen: What's the basis of your question?

Deputy Kieran O'Donnell: The basis of my question is, is that you basically increased expenditure-----

Mr. Brian Cowen: I did, yes.

Deputy Kieran O'Donnell: -----on foot of increase in taxes which were around the property sector, which crashed in '08. Now, and you're being advised by your officials that it was unsustainable. The number of hospitals complete-----

Mr. Brian Cowen: But I'm not suggesting it was sustainable, Deputy. I'm suggesting-----

Deputy Kieran O'Donnell: Therefore why did you put that level of spending?

Mr. Brian Cowen: Well let me answer your question, if you want me to answer it, I will answer. The reason why we played ... we wanted to play catch-up on having a first-world infrastructure, an improvement in public services that was needed. We needed to improve public services, Deputy. We had-----

Deputy Kieran O'Donnell: But your spending was on foot-----

Chairman: Sorry now, Deputy O'Donnell-----

Mr. Brian Cowen: I'm giving you an answer as to why I increased spending. We made policy decisions in that respect and we did it on the basis on having achieved those basic guidelines, that I would regard as requiring, we weren't going to be completely, over the following five years, increasing spending at that rate again. We would obviously have to adapt our policy as things went ahead. And in 2008 we did do that in terms of the reduction of housing output, we budgeted for 2008, at 50,000 units as distinct from the 90,000 units there were the previous year. So we were going, at that time-----

Deputy Kieran O'Donnell: But, Mr. Cowen ... Mr. Cowen-----

Chairman: Deputy, allow him to answer-----

Mr. Brian Cowen: I am giving you an answer, if you want a political debate we can have it in the Dáil.

Deputy Kieran O'Donnell: I'm trying to help you-----

Mr. Brian Cowen: No, you're helping me well, because I'm explaining to you; that whatever, you know ... we had policy decisions to make, we had a medium-term outlook, with which you agreed. There was a broad consensus in the political parties of this country that growth in this country would be between 4% and 5% out over the period. You have to make economic plans and decisions based on certain assumptions, those were the assumptions. When the realities change you change the policy, Deputy, that's the way it works. And we did change the policy and we had to change fundamentally the policy because we ended up in a totally different situation-----

Deputy Kieran O'Donnell: Mr. Cowen, Mr. Cowen, were those taxes, in terms of property sector, stamp duty and capital gains, were they sustainable?

Mr. Brian Cowen: I've explained that, obviously, we were ... if you had reduced housing output, you were going to have reduced taxes coming from that source and you would have to either find cuts in other areas of activity or provide for greater spend. But the reason why, by the way, we had this move to capital taxes, which is something that should be, presumably welcomed by people who call themselves social democrat, because it takes down the burden on direct tax on working people. We wanted to make sure that working people got the benefit of some of this prosperity. Also, we wanted to use, to deal with a tight labour market where ... in terms of trying to ... promote a moderate incomes policy, we wanted to use our fiscal policy to ... in other words, the taxation issue, increasing tax credits, helping people to retain more money of their own at work, that that was a pro-employment policy, that that ensured we avoided poverty traps, it ensured that those people who were on lower wages, at minimum wage were outside the tax net altogether, something that we brought in. And also we wanted to make sure that ... there was also 200,000 people in traditional manufacturing in this country, who have wages which are less than the average industrial wage-----

Deputy Kieran O'Donnell: But-----

Mr. Brian Cowen: -----let me finish, and that those people needed to be helped, because we wanted to keep that as competitive as long as we can based on investments that have been made in the '70s and '80s and mightn't be here for the long term, and would be lower-value manufacturing than elsewhere. So there was a rationale for everything we did and I'm simply saying to you, that as the input of construction-related activity was ... would decline, as it was expected to decline, and as we were budgeting for in 2008 and 2009 and subsequently, if we had gone the way it was expected to go, we would obviously have to adapt our tax system accordingly.

Deputy Kieran O'Donnell: Mr. Cowen, could you-----

Chairman: Deputy-----

Deputy Kieran O'Donnell: Just very quickly ... Could you explain to me then the rationale ... that the bulk of the increase in spending, you doubled the spending that was in '03, you doubled that in ... in '06 and '07, can you explain the rationale, why the bulk of that increase in spending was on the current side rather than the capital side? And was it some way linked into an impending general election in '07?

Mr. Brian Cowen: It's very simple, Deputy, if you build classrooms, you have to put teachers in them. If you build hospitals you've to put nurses and interns and doctors into them. If you-----

Deputy Kieran O'Donnell: What-----

Mr. Brian Cowen: -----excuse me, we were involved in the biggest investment in education, we had a fourth-level Ireland initiative, which was about improving third level, we had brought in research and development grants, we had brought in Science Foundation Ireland. We were investing Deputy, because the bottom line, let me explain this to you, this was my thinking, if you want to know what my economic philosophy was at the time, to understand what I'm saying. I'm saying this; that if you have a tight labour market and if you have growth of 5%, unemployment at 4.5%, you can decide to put on the brakes, this is after ten years of prolonged economic growth and good performance. You decide then what you're suggesting is, basically, put on the brakes, increase unemployment-----

Deputy Kieran O'Donnell: No-----

Mr. Brian Cowen: Look hold it for a moment-----

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

Chairman: I will allow for you-----

Mr. Brian Cowen: Increase unemployment or, because you're dampening demand, or what you ought to do is, you do what we did or what we wanted to do, which was increase the productive capacity of the economy, to deal with the bottlenecks out on the M50, to do something about the infrastructure and the motorway system, and those investments-----

Deputy Kieran O'Donnell: With due respect-----

Chairman: Mr. Cowen-----

Deputy Kieran O'Donnell: Chairman will you allow me to proceed?

Chairman: Mr. Cowen-----

Mr. Brian Cowen: Yes. Those investments are now the long-term investments that led us to the Republic today.

Deputy Kieran O'Donnell: Chairman, please, am I here to ask questions or is it-----

Chairman: Mr. Cowen, can we come back to the root of the question, and I do afford you time and all the rest of it, but the root of Deputy O'Donnell's question is to do with cyclical nature of the budgets and where they were actually in place. So, if I could ask you to reframe the question if necessary, Deputy O'Donnell, just let me finish, and to focus in on the specific area and we'll get that dealt with and we'll move on to the next question. Deputy O'Donnell.

Deputy Kieran O'Donnell: The pro-cyclical nature of your budgets from, from '05 to '07, and the fact that you had this massive increase of expenditure, most of it around current ... much of it around tax and so forth and the current side rather than the capital side, how do you reconcile that much of that was based on the major increases in cyclical taxes in terms of stamp duty and capital gains taxes, around the property sector, which collapsed in '08? And gave rise to the Irish people-----

Chairman: Back up-----

Deputy Kieran O'Donnell: Just .. may I ask-----

Chairman: -----just in terms of the questions. We don't need any conclusions.

Mr. Brian Cowen: The issue ... the issue was, as you know, the big four taxes of income tax, corporation tax, stamps ... oh, sorry, excise duty and VAT make up over 80% of total tax take at any time. The point I'm making to you is, regarding taxes, we were going to obviously have a budgetary policy that took account of that reduction over time. What happened was, it happened like that. And it happened like that because there was a liquidity crisis, there was also a total slowdown in the economy, the banking system stopped lending and economic growth evaporated.

Deputy Kieran O'Donnell: Why ... why-----

Mr. Brian Cowen: That's why-----

Deputy Kieran O'Donnell: -----why did you ... why did you-----

Mr. Brian Cowen: ------because there is no government in the world ... in the democratic world, which was budgeting at the time ... in the mid ... time that I was Minister on the basis that we were going to have the biggest financial crisis since 1926 in 2008-----

Deputy Kieran O'Donnell: Why did you-----

Mr. Brian Cowen: That's the answer.

Deputy Kieran O'Donnell: Well then, explain to me, why did you, up ... in those years prior to the general election in '07 ... '05 and '06 and '07 budgets, why did you increase spending by such an exponential rate-----

Mr. Brian Cowen: I've explained it why-----

Deputy Kieran O'Donnell: -----above growth? Above growth?

Mr. Brian Cowen: I've explained why. I've explained the policy decision. The policy decision was very simply this: that if you wanted to underpin long-term competitiveness in the Irish economy, you had to invest in the skills, in people and you had to ... you had to invest in infrastructure-----

Deputy Kieran O'Donnell: Can I move on?

Mr. Brian Cowen: -----and by investing in infrastructure and people, we had the most educated generation, thankfully, in this country, who've been able to bounce back from the very calamitous situation we faced. But those investments were not as had been portrayed in the political narrative of this country ... water thrown out the door, thrown down the drain-----

Deputy Kieran O'Donnell: Mr. Cowen-----

Mr. Brian Cowen: Those investments-----

Deputy Kieran O'Donnell: Mr. Cowen-----

Mr. Brian Cowen: -----are paying today in spades.

Deputy Kieran O'Donnell: -----if you were ... if you had it back again ... and you were back as Minister of Finance in '04 to '07 period, what would you have done differently-----

Mr. Brian Cowen: I have said-----

Deputy Kieran O'Donnell: -----on the budgets?

Mr. Brian Cowen: -----I have said what I would've done differently in my statement. I have said that now that we know where we are now, of course I would've had a different policy, of course I would. No one sets up a situation ... but the policy that we had at the time was a policy that was plausible and that was backed up by international peer assessment and by domestic commentary here. That's a fact. We had ... we had a situation where we were looking at extended growth ... okay, long-term growth less than the halcyon days of the Tiger but still a growth pattern based on a ... an economy that had been growing consistently for the previous ten years. And on the budget side, finally if I can make this point, and I'm sorry if ... is that ten of the 11 budgets were in surplus, even though I had minor deficits budgeted for. And finally, in 2005 and 2006, the IMF came over to this country and did an exercise, which took account of the buoyancy effects that you're talking about in relation to the construction industry and came back and told us that there was a structural surplus - even when they took out the cyclical effect - that there was a structural surplus in the Irish economy of 2.8%. So that was saying that there was ... we were not going ... we were not, in fact, trying to overheat the economy-----

Deputy Kieran O'Donnell: Mr. Cowen-----

Mr. Brian Cowen: -----we were working within the capacity of the economy.

Deputy Kieran O'Donnell: -----I'm ... my time is virtually up.

Chairman: Next question now, Deputy.

Deputy Kieran O'Donnell: Just one small point. What do you say, Mr. Cowen, to the young people out there that bought houses during that period with mortgages based on encouraging ... with massive increase in the number of houses being built, there's now a negative equity, in some cases they've lost their homes ... what do you say to those people now during your tenure as Minister for Finance? What apologies-----

Mr. Brian Cowen: I made very clear in my speech what I feel about that. Let me say, Deputy, you have no monopoly on upset ... or people ... seeing people in distress-----

Deputy Kieran O'Donnell: I never said I had.

Mr. Brian Cowen: Well, there is an attempt you made-----

Chairman: If we can maybe move away and-----

Mr. Brian Cowen: -----here sometimes-----

Chairman: Mr. Cowen-----

Mr. Brian Cowen: -----against that-----

Chairman: I'll say this first, Mr. Cowen-----

Mr. Brian Cowen: I have nothing-----

Chairman: Sorry, Mr. Cowen-----

Mr. Brian Cowen: -----but the greatest-----

Chairman: Mr. Cowen, I'll just stop you for a second.

Mr. Brian Cowen: -----sympathy for those people in that situation and anything that I did-----

Chairman: Mr. Cowen-----

Mr. Brian Cowen: -----Deputy. Let me just finish this point-----

Chairman: I'll-----

Mr. Brian Cowen: ------the point is being made against me-----

Chairman: I will let you finish the point, Mr. Cowen-----

Mr. Brian Cowen: But you won't let me finish it.

Chairman: And I would avoid ... I would avoid the member and would avoid yourself, what we're not looking for here is polemic engagement, what we're looking for is questions and answers. The job of this inquiry is-----

Mr. Brian Cowen: Well, I want to make it clear to Deputy O'Donnell that-----

Chairman: And I will allow you back in.

Mr. Brian Cowen: I'm sorry.

Chairman: The job of this inquiry, and what we're asking everybody to do, is to give the fullest information to the Irish public as to why this country went through the crisis it did, why it had ... as it's now moving into a new phase as to ensure as to how it doesn't happen again. That's the No. 1 objective of this inquiry.

Mr. Brian Cowen: Hear, hear.

Chairman: So if I could ask both the questions to be related to that theme and the witness to respond in that manner as well.

Mr. Brian Cowen: Well, I'm just saying to Deputy O'Donnell, in case he's under any illusions that I don't have sympathy for people who have found themselves in difficulty, of course I do. And I am saying that the work we did when I was in government was always about promoting the public interest as we saw it, about being ambitious for this country and trying to build on the successes that have been built over many years and that the hard work of the Irish people is what's helping us back.

But I just want to make the point, Deputy, that, you know, if we all had time back now ... I'm not suggesting I'd had the same policy framework if I knew now ... if I knew then, what I know now. But no one knew then that we were going to have a financial crisis in 2008. And anyone who suggests that they did is being politically and intellectually dishonest. And every country in the developed world, to a varying degree, has had to deal with this basic problem.

Now it doesn't ... I don't ... I don't ... I'm not shifting the responsibility anywhere. I'm the guy that was there and I'm here to explain to people - because this is what they need to know - what was the contemporary thinking, why did you do what you were doing and on what basis were you doing it, what was the assessment of the risks that was there? People need to know that. And it's on the basis of that that you make your decisions. And you're not run by the Civil Service nor are they asking to run the country, you're ... they're there to advise, they're there to give the risk assessment and you're there to take that on board and take on board the fact that there are waiting lists outside hospitals and there's no child care provision in the country and that our intellectually disabled are not ... don't have a system that's in the 20th century, let alone the 21st. And you make a decision,"Are we going to wait?" I mean, in the good times, how long are these people supposed to wait? How long were we going to wait to give an old age pensioner a few extra bob? He might live with a bit more dignity. I remember people saying to me in an election campaign, "Thanks, Brian, we appreciate that bit of effort you're making on that front. When my grandchild comes here now, I can give her ... I can give him a fiver instead of wondering how many grates are in ... how many briquettes are in the grate." Those are policy decisions that we made and I stand over those decisions.

Chairman: Final question, Deputy, and then we can move on.

Deputy Kieran O'Donnell: Can I just ... the Financial Regulator, Brian Patterson, former Financial Regulator ... he's in your time and he was in before us and he reported-----

Chairman: Chairman.

Deputy Kieran O'Donnell: He was chairman, sorry. Chairman, rather. Apologies. He said that only the Finance Minister could set goals and objectives of ... for the chair. Did you ever set goals and objectives for the Financial Regulator ... the chair of the Financial Regulator, the board?

Mr. Brian Cowen: No, I did not, Deputy He had a statement of strategy that was drawn up by the board. I mean, Brian Patterson, I don't have to tell ... he's a man that I admire and respect. Brian Patterson doesn't need to tell me ... for me to tell him how to suck eggs, Deputy. He's chairman of an authority. He has a statement of strategy. It sets out its position. I've read it. And, you know, it was never my practice to write to the chairman of a semi-State company, "Here's my aims and objectives for you." I expect them to implement Government policy in accordance with the corporate plans that they've got outlined for their companies. And if there's any problem arising, to bring it to my attention. Mr. Patterson is a former leading light of the Irish Management Institute, he had senior positions in Irish and international industry and he did a good job while he was there. But I think that maybe when he was being asked about this ... as to why, you know, he came up with that answer, I don't honestly think that that was a determining factor one way or another.

Deputy Kieran O'Donnell: Mr. Cowen, he said as well that ... that you had semi-annual meetings between yourself and the chair and the CEO, Mr. Neary, of the Financial Regulator. And that apart from the credit union issues, no prudential issues with the retail banks were ever discussed, no requests for more information about prudential issues were made ... were made by you, as Minister. Can you elaborate and explain on that?

Mr. Brian Cowen: Well I have the ... first of all, it is true. The chairman would ring ... the chairman would make arrangements to see me if he wished to see me. I always met him at his request. There were three meetings, as you say, around six months each, over the period of his chairmanship. He was bringing issues to my attention, Deputy. He was telling me what this authority that had the strategy power, what its problems were, what its issues were. He decided what the agenda was. I wasn't telling him, "Don't talk to me about this. Don't talk to me about that." He'd have talked to me about anything. And he came down and talked to me about various things. Yes, there was issues about credit unions because there was a very strong consumer protection issue there. There was also issues, and I have the table of content-----

Deputy Kieran O'Donnell: But-----

Mr. Brian Cowen: If I may, Deputy, if I just may ... to help you ... to answer your question-----

Chairman: I'll allow you a supplementary now, Deputy, in a moment, okay. Mr. Cowen.

Mr. Brian Cowen: -----setting out the contents of the briefing that I was getting and it covers more than credit unions. But the point is, you know, if there was any issue at any time that the chairman of the Financial Services Authority wanted to bring to my attention, there was no problem bringing it to my attention. And if I'm there and I have ... they have the meeting with me and they go through the issues that they want to discuss with me and I say, "Is there anything else?" and they say, "No, that's fine.", what am I supposed to do?

Deputy Kieran O'Donnell: Was it just coming from one direction, in terms of-----

Mr. Brian Cowen: It wasn't ... it wasn't coming from one direction, Deputy, it was, basically, the normal interaction that takes place between the chairman of an agency and a Minister. "Minister, I wish to see you." "What do you want to see me about?" "Five things." "Okay, no problem, come and see me about them."

Deputy Kieran O'Donnell: Minister-----

Mr. Brian Cowen: "I have problems in five areas", and if he wants to tell me how well he's doing in five other areas, that's fine too.

Deputy Kieran O'Donnell: Can I ask you a final question?

Chairman: A final supplementary question.

Deputy Kieran O'Donnell: You had the Department of Finance, because David Doyle has said in the briefing note that he was explaining that there was major overheating in terms of unsustainable taxes in the property sector. The Financial Regulator were regulating the banks. In your role as Minister for Finance, did you not think it incumbent upon you to bring it up with the Financial Regulator that there was concerns about the property sector and how were they dealing with that in terms of bank lending?

Mr. Brian Cowen: Yes, the Central Bank Governor, in his briefings to me, would mention these issues to me. He was the guy that was dealing with me there, because there were ... it was in the context of financial stability issues. And I've explained to you that when you look at lending growth, and I've explained it in my statement, that you look at lending growth in any year there was ... in fact, in one of the stability reports, a very interesting paper done - and I would say that in relation to these stability reports, which only began in 2004, prior to that they were incorporated in annual reports, that in fairness to the Central Bank and the regulator's office, there were always excellent and relevant papers attached to these reports by either their own staff or others in relation to certain issues. And on lending growth, they had one actually. And one of the things you have to remember is that the function of increasing lending growth is not just ... if you take it that prices are rising every year, year-on-year, plus you increase the numbers, the number of people who are getting mortgages increases, that dictates what your rate of growth is. And I think it's important to point out that the research paper that sets that out ... whilst is was higher, it was higher, we were coming from a position where we had low, believe it or not, even in EU comparative terms, low occupation of population in housing, we were coming through a social change where there was no longer any inter-generational living going on. People where you had one house would do as a family unit, was now three or four required, you get my point? So all of that social change, the question of different types of families and all that was funding ... that was fuelling the lending growth. But the issue that came up from the regulator was that he decided in 2007 to do something about that. It should have been sooner, in hindsight. But that was a statutory power that he had; I didn't have that statutory power.

Deputy Kieran O'Donnell: Can I ask another question?

Chairman: No.

Mr. Brian Cowen: It was explained benignly as meaning that the level of growth in the economy would also deal with lending growth, not only in relation to mortgages but personal debt as well-----

Chairman: You can ask in the wrap-up later.

Mr. Brian Cowen: -----where people were using cards and the consumer issues were improving. So the whole ICT revolution was very much part of that whole banking progress in terms of lending being available at low interest rates from a liquidity pool that was ... seemed to be there for a long, long time.

Chairman: You're over five minutes over time, Kieran. I'll be bringing you back in wrap-up. We have Mr. Cowen all afternoon as well. Deputy Joe Higgins, and maybe then we'll go for a cup of coffee.

Deputy Joe Higgins: Mr. Cowen, one of the statutory objectives of the Financial Regulator according to the 2003 Act was the, "Promotion of the financial service industry in Ireland." To what extent did the Government encourage the Central Bank to pursue this objective? For example, are you aware of discussions between Government representatives or, indeed, yourself and the Central Bank or the regulator in relation to this issue?

Mr. Brian Cowen: No, there were no private discussions first of all; I never engaged in private discussions on this issue. I listened to some of the evidence given by the primary actors in this area in terms of the Financial Regulator and the Central Bank Governor and other staff about this. It is true that that is part of the statutory mandate that they have but I don't think, in any way, it can be argued that that enables, or that it should in any way suggest, that the primary function of a regulator is compromised. The job of the regulator was to regulate. There was also this issue about ... we had built up, as you know, over the previous 20 years, a competence and a presence in the financial services industry, which has brought a lot of, thankfully, jobs and revenues to the State as well as a big presence in various parts where we are world leaders in certain markets of reinsurance and aviation finance and all that sort of thing. But to answer your question, and I'm only speculating on this, I'm only observing, because the people who can answer this best are the people that you've asked this question of already-----

Deputy Joe Higgins: Okay, no, you've answered the question so far, but let me just-----

Mr. Brian Cowen: Okay.

Deputy Joe Higgins: -----go forward then, that many people would believe Mr. Cowen - I put this to you for a comment - that there would, indeed, be a conflict between the Central Bank and the regulator being charged with regulating and controlling financial institutions, banks, etc., from excessive profit-taking or whatever on the one hand, and then, on the other hand, trying to make the situation attractive to entice foreign banks in and to let the industry know that regulation wasn't really that tough.

Mr. Brian Cowen: Well, I don't think it was meant that regulation wasn't tough. As I say, the primary responsibility should never have been compromised in any ... you know, people have wider responsibilities but your first job is, "I'm a regulator, so I do the regulation." What you're also being asked to do is to make sure that you recognise that there's a wider industry here, there's a wider, common, public benefit in terms of having an industry that's competitive in that area in Ireland and it was one of the successes coming out of a difficult period for the country and has provided a lot of good jobs and opportunities for young people.

But I take your point to this extent that there seems to have been some confusion in someone's mind as to what was the important role they had and what was an ancillary role which was simply being supportive of efforts to improve or to increase the presence of financial services in Ireland. It did not - and I don't believe it was conscious on anyone's part it; it seemed to me to be a, sort of a, cultural thing - but we've always had ... in order to make it a success, there has been through the Clearing House Group and through consultation panels, etc., the need to make sure that if Ireland were competitive that we were listening to those who were in the forefront of this business to make sure that we had ... that we were competitive, that we didn't have a regulatory regime that would mean that all your so-called investments in this area would go to London or New York or somewhere else.

Deputy Joe Higgins: And on that very point Mr. Cowen, there was evidence here that the presence of the financial services centre was, indeed, a pressure, acceded to by Government and the regulator to lessen the robustness of regulation on the Irish banks and can I quote you from your own book of evidence, Vol 1, page 11? It's fairly straightforward. This is Mr. Con Horan who was prudential director of the Central Bank, "Speeches and corporate publications of [the regulator] made regular references to the desire to foster innovation and competitiveness and, for the system to work properly, the need to trust those at the helm of financial institutions to act prudently." And then to the bottom of that paragraph-----

Chairman: It's on the screen in front of you, Mr. Cowen. The microphones will come on automatically themselves, so there's no need to be pressing them, okay, because you might be knocking them off. Okay, it's on the screen in front of you.

Deputy Joe Higgins: Now:

> Given the international trends, a principles-based approach [which has been referred to here as light-touch regulation, that's my comment] to supervision was also seen as important in developing Ireland as an international centre for financial services. Further, in accordance with the 'Better Regulation' agenda, the financial services industry in Ireland has been given significant influence over the approach to supervision in Ireland.

And just one more quote, Mr. Cowen, is that Mary Burke, who was head of banking supervision said in relation to the same issue, and I quote from her statement to the tribunal ... or to the inquiry rather. It's simple to comprehend. She says:

> Other factors which I consider influenced the approach to regulation and supervision were [the Financial Regulator's] mandate to promote the financial services industry and the existence of the International Financial Services Centre ... The desire to portray Ireland as business friendly led, I believe, to a reluctance to introduce prescriptive rules and a particular focus on keeping costs down [and then continue a little while on] ... This decision was driven by a concern that the IFSC might otherwise be categorised as an off-shore centre with associated negative connotations.

Do you agree with those two contributors to the inquiry?

Mr. Brian Cowen: Well, that view was given by people who were interfacing with them in certain respects. The only comment I'd make from a policy point of view is that, you know, we had rules-based more interventionist type regulation, for example, in Spain, and we still had a housing crisis and we had a problem. So it comes down to, basically, people spotting where the risks are. And the whole problem about this crisis has been a misjudgment of risk - people not recognising that risks were building and problems existed.

Now on the IFSC, I would like to point that again the Central Bank did a sort of an exercise, in one of their reports, I think it was the 2005 financial stability report, it made the point that the IFSC was not ... I think only 3% of lending was done by the IFSC banks in terms of how the Irish economy worked. All that problem was in the retail banks. And I think it's important to point out that, when there was criticism at the time of the setting up of the IFSC, there was people trying to suggest that it was all a funny money and it was all a haven and all the rest of it. I mean, the problem arose in Ireland in Main Street; it didn't happen in the IFSC, it happened in our own retail banks and we have to take cognisance of that.

Deputy Joe Higgins: Yes.

Mr. Brian Cowen: And we have a successful IFSC-----

Deputy Joe Higgins: The point that was made by Mr. Cowen is that the light-touch regulation was introduced to the Irish banks to facilitate the IFSC. But I wish to just develop the point a little bit. Your Taoiseach, former Taoiseach, in 2004 Mr. Bertie Ahern, in a foreword to "Regulating Better" from his Department, said the following, and I'll read one or two quotes, and the question I want to put to you after is, is it-----

Chairman: Are you familiar with the document, Mr. Cowen? Just to-----

Mr. Brian Cowen: I'm not, but I'm sure Deputy Higgins will quote it accurately, the good Kerryman he is.

Chairman: All right. Deputy Higgins, carry on.

Deputy Joe Higgins: Yes ... the point I would put to you after is to ask you if in fact your Government made regulation subservient to competitiveness and competition between banks. Mr. Ahern says:

> Enhanced competitiveness is a key part of the Government's strategy to achieve social progress, better living standards, and a steadily improving quality of life. I am absolutely committed to ensuring that Ireland continues to be a competitive and open economy.

He then goes on to say, "This White Paper deals with good quality regulation, which has an essential role in achieving these objectives." He further says:

> We also need to ensure that the benefits of greater competitiveness and of heightened domestic competition are transferred to citizens [...] Better Regulation is one of the instruments available to achieve this [...] Bad or cumbersome regulation [not only] creates barriers to efficient markets, thereby discouraging competition and innovation...".

The question to you, Mr. Cowen, is that the testimony here, from several witnesses, including the most senior bankers and the Governor of the Central Bank, is that precisely this competitiveness and competition that was encouraged by your Government led to, my word, or my suggestion to you, a cutthroat competition between them that led the banks to lend recklessly to developers for speculators etc.-----

Chairman: Mind your language Deputy, you are moving into judgment now, Deputy, so I will have to pull you back.

Deputy Joe Higgins: No, it's, it's-----

Chairman: No, it's judgment.

Deputy Joe Higgins: -----it's a proposition for comment ... caused a bubble and caused the crash.

Mr. Brian Cowen: No, I think, I'll be honest with you, I think that there was a whole number of reasons why we ended up where we ended up, but it's not based on Government proposing that regulation was not important and you needn't worry about it, and don't do it, and let people do what they like. That was never ... there was no licence in the public policy area for anyone to be involved in some of the practices that they were involved in.

The problem, I agree, with principles-based legislation is that it doesn't talk about proportionality, which is fine, it does talk about flexibility, which to my mind is fine, it does talk about various other things, but it doesn't abdicate people from doing their job. And it wasn't the case that we had set up a statutory framework where people didn't have the powers to do their job. The job wasn't done. And there are a number of reasons for that, and some of the problems can be regulatory capture, it can be too much deference, it can be complacency, it can be too trusting of the governance mechanisms of the banks, it can be a whole range of things.

But you know, when the Taoiseach was talking about ... the then Taoiseach was talking about competitiveness, yes, he was interested in competitiveness, he was interested in improving standards of living, of increasing the diverse sectors in the economy, including this one. But I don't accept - and it's not me trying to just throw back a point to you - I just don't accept that principles-based regulation was the reason why we had the crash. I'm saying that there was another place, in Spain, where you had rules-based regulation, and you had the crash. It's down to people implementing the frameworks they have effectively, keeping distance, being rigorous, looking at worst-case scenarios, thinking outside the box, not taking people's assurances, you know. And at the end of the day, the thing about principles-based regulation is it imposes a very heavy duty on management and boards of directors of financial institutions to make sure that they are working in accordance with the framework that's set out, and clearly they weren't.

Deputy Joe Higgins: Let's talk a little bit about regulatory capture, perhaps, because you say on page 11 of your written statement to us, as Minister for Finance, in paragraph 77, "There was a lack of analysis by both Central Bank and Financial Regulator in challenging the over concentration of risk in property." You say, "There was clearly a culture of deference in operation between the Financial Regulator and the financial institutions." And in point 76 you say, "I believe that had there been more robust, independent work and scenario planning undertaken by both the Central Bank and the Financial Regulator regarding the banking system, this would have informed the silently evolving risk scenario and enabled the Central, the [Financial] Regulator and the Department of Finance to develop timely, strategic interventionist policies and strategies." Now, that's what you say on the one hand, Mr. Cowen.

Then I want to put to you what you did, and what you said yourself. For example, in a speech to the Institute of Bankers in Ireland annual dinner, 2 November 2006, and this is off the Department of Finance website, you said the following to them:

> But, in my view it is the innovation coming from within the sector which is the most remarkable driver of change. Increasingly sophisticated derivative products seem to be arriving daily as a sector seeks to become ever more professional in the way it manages and hedges its risks and chases after that elusive higher yield.

Mr. Cowen-----

Chairman: Are you familiar with the document, first, Mr. Cowen?

Mr. Brian Cowen: It's fine.

Deputy Joe Higgins: It's a speech the Minister made, it's quite clear, the intent of it. Mr. Cowen, Warren Buffett, a billionaire who would know something about speculation and derivatives, said:

> I view derivatives as time bombs, both for the parties that deal in them and the economic system. [P]arties to derivatives [also] have enormous incentives to cheat in accounting for them [...] In my view, derivatives are financial weapons of mass destruction.

Take that on the one hand, and then your encouragement of the chase of "elusive higher yield"-----

Chairman: I'll have to allow the witness the same level of time now to respond, Deputy.

Deputy Joe Higgins: -----in other words, profiteering. Isn't it clear, or is it, or do you disagree that you were in fact encouraging the worst excesses of the banks?

Mr. Brian Cowen: I wasn't, of course I'm not encouraging the worst excesses of banks. I'm simply pointing out that the banking industry has changed a lot in the last 25 or 30 years. I mean, the old deposit and lend model, where they had, in the older days, after the Depression and into the '70s, where you had uncompetitive banking practices, cartels basically, and you got very little for your deposits, and they went off and made plenty of profits lending your money ... that changed a lot because you had other financial actors come into play, like insurance funds, like pension funds, like people who were able to go to the financial markets directly themselves. So the thing has changed, the scenario has changed, and part of that financial services is a legitimate area of practice. Now, I'm not here as a protagonist, I don't claim to know all the intricacies of the financial services sector, but I'm simply referring to the fact that we had built in this country a sustainable, it appears to me, well-regulated financial services centre, which didn't cause us any problem when the thing hit. What caused the problem was our own domestic banking sector; that's the cause of the problem.

Deputy Joe Higgins: Yes ...

Mr. Brian Cowen: So what we thought was conservative here and mundane and unimaginative, in actual fact, brought us to where we are. And the people who are supposed to be the cowboys, according to some people, are out there-----

Deputy Joe Higgins: Yes, but Mr. Cowen-----

Mr. Brian Cowen: I'm sorry, I have to answer, Deputy, I can't-----

Chairman: You asked the question, Deputy, so you have to allow the witness time to respond.

Mr. Brian Cowen: -----and people who are not supposed to be doing the thing right, it appears to me, are able to get on with their business and deal with clearly other types of products that are far less, far more sophisticated, rather than what they've been doing.

Deputy Joe Higgins: Yes, the point to put to you, Mr. Cowen, is that the encouragement of that type of speculation is, in fact, precisely what led to a bubble and then to disaster. But let me put to you how you finished that speech:

> Of course, not all of these brave new initiatives are successful. It's a hard game, but there's all to play for. Of course, that's easy for me to say because you are players on the

field and I'm just an ardent supporter on the sidelines. I will continue to wear your colours.

Mr. Cowen, you were Minister for Finance. You're wearing the bankers' colours. You're all but ready to take the field on the bankers' team-----

Chairman: Sorry, Deputy, it's only a polemic. Now, sorry, Deputy-----

Deputy Joe Higgins: Is it any wonder this is the question-----

Chairman: Deputy Higgins. Deputy Higgins. To the Chair-----

Deputy Joe Higgins: Is it any wonder-----

Chairman: Deputy Higgins, please. I'll have to go into suspension if you don't listen to the Chair. There's only one Chair inside in this room. Please. I have to be balanced and I have to say to you, you cannot go into a polemic that's going to end up with a conclusion and a value judgment in it. I've already been ... commented upon this and I have to be consistent. So please, ask a question and avoid the polemic, value judgments, please.

Deputy Joe Higgins: Chairman, I was asking the question-----

Chairman: Okay.

Deputy Joe Higgins: Mr. Cowen, as Minister for Finance, said to the bankers, "I will continue to wear your colours. I am an ardent supporter on the sidelines."

Chairman: And ask him to comment on it.

Deputy Joe Higgins: The question I'm asking Mr. Cowen to say or to ask is: is it any wonder that a culture of deference was then evident in the regulator and in other areas of the State when the Government-----

Chairman: That's a leading question, Deputy. Ask the question.

Deputy Joe Higgins: -----was speaking in these terms?

Mr. Brian Cowen: Deputy, let me answer the question. I'm a backer of the 30,000 jobs that are down in the IFSC. I backed those jobs. I'm glad I was part of a Government that brought them into being and brought forward that very important proposal. I'm glad I did that. I mean there are some people, maybe - I don't know where they are in the spectrum - that would rather see the dereliction that was down there, staying down there. I don't know. Look, I'm in favour of people of action who went and did something for this country and brought it up. Now, I don't hold any brief for misbehaviour in an IFSC or a Bank of Ireland or anywhere else. That's not my point. But I do believe that it's the job of a Minister in a Government that is out there trying to make its way in the world, to be part of a ... you know ... to have participation in industries which ... from which a problem that we are now dealing with didn't emanate. That's the point I'm making to you. If it's all so bad, why isn't it that all the problems are in our own domestic banking sector? Because what I'm explaining to you is that the interaction of that is not dealing with ... it doesn't have direct links to the Irish economy. It's 3% of credit in this country is attributable to IFSC. They're international ... involved in international financial services, insurance, reinsurance, a whole range of issues that are dealt with globally, and we have some of that industry and some of those qualified people working in our city, which does a lot for promoting this city as a city where investments should come. Now, there are other people, maybe like you or others, who don't ... who have a problem with that. That's fair enough. We'll disagree on that. But I am not ... if you're trying to suggest that I was a proponent of shabby practices, I was not. But the problem is it didn't emanate from there, if you're so worried about them. It emanated from our own-----

Deputy Joe Higgins: Mr. Cowen, why were speculators and developers allowed to profiteer incredibly by any standards, in land, for example, in land dealings which caused massive increases in the price of a home for an ordinary person? Did you take any significant measures to stop that?

Mr. Brian Cowen: Yes, the measures that we were taking, Deputy, by increasing supply was to moderate the price of housing ... we were trying to do. You have ... if you want ... and that's a problem, by the way, that's here in post-crisis Ireland. We have a problem now with capacity to build houses. People need homes and they can't get them and the reason is because we don't have enough players in the market out there building these homes. So, if you want to deal with a problem, you know, and you're really concerned about high prices, you've got to deal something on the supply side. I said that in the late 90s, the capacity of the construction industry in this country was only able to build 17,000 houses. If the capacity of that industry had not responded and increased its capacity, where would we be in housing today, quite apart from the financial crisis and everything else?

Deputy Joe Higgins: Yes, Mr. Cowen-----

Mr. Brian Cowen: So ... so the point ... you know ... all I can say to you, Deputy, is whilst, you know, you wish to portray me in a way that's-----

Deputy Joe Higgins: I'm only asking you questions.

Mr. Brian Cowen: No, you're not. You're setting me up as some, sort of, guy who's promoting cowboy speculators. I'm not, Deputy, I'm not ... I don't travel in those circles at all. What I'm doing is-----

Chairman: Please, please.

Mr. Brian Cowen: -----is explaining that a responsible Minister for Finance would be a promoter of financial services in Ireland and there are 30,000 jobs, well-paid jobs down there to prove it.

Chairman: Stop the clock, please.

Mr. Brian Cowen: That's a good idea.

Chairman: I'm going to stop the clock for a second, okay. And because we have a long day ahead of us and we have another long day on Wednesday of next week ahead of us. And I would be very firm in asking members of this committee not to be implying any value judgments in their questions and not to be leading unintentionally, or in any other way, a witness and I've been consistent in that since we began the inquiry.

Secondly, I would also ask the witnesses, when they come before us, not to kind of engage in secondary locations of questions that's put back to them as regards the, kind of, questioning the intent of the witness or going into another area that may be related to some third party. We don't need a second-hand subjective testimony to this inquiry.

And, thirdly, right on the very first day that we started this inquiry, I was very clear in my mind that this is not the Dáil Chamber and what I mean by that, that it's not an adversarial environment and it's one in which the committee members and have to this date, left their club jerseys at the door and I would hope that that would be reflected over the next two days as we continue. Witnesses come in here to give us the best information that they can, to the best of their ability and that has happened and also, questioners rely on the evidence that is presented to us. So with that said, I'd like you to conclude your line of questioning and then we go for a cup of coffee, Deputy Higgins. Thank you.

Deputy Joe Higgins: Mr. Cowen, I'd like to deal a little bit with the relationships - it's one line of inquiry for this committee - between the Oireachtas and the banking and property sectors. You say in your opening written statement, it's at point 39:

> It has been alleged that no action was taken by our Government to deal with these risks [let's leave that]. This seems to be based on the view in some quarters, it seems, that I was in some way beholden to property market interests. This is simply not true.

Now, Mr. Cowen, each year your party, Fianna Fáil, had a marquee at the Galway Races and it became quite well known as a meeting place for many of the leading developers, construction companies and property interests in the land. Many of these individuals subsequently went into NAMA, causing huge losses to the Irish people. Many of these gave serious donations to your party-----

Chairman: Question, Deputy, please.

Deputy Joe Higgins: -----over the years-----

Chairman: Question.

Deputy Joe Higgins: How could such a close relationship not impact on the moves that your Government would or would not take-----

Chairman: Sorry, Deputy, I'll move you to a question now because you're leading. Okay question please.

Deputy Joe Higgins: Yes. An ordinary person would feel that this would certainly impact on policy, this close relationship. Is that the case?

Mr. Brian Cowen: No, it's not the case at all. You couldn't get a winner in a Galway tent, Deputy, never mind anything else. I mean there's not a lot of mythology from people about this, sort of, stuff. Other parties have "dos" in Punchestown and there's not a word about it. Never heard a word in the media about it. I mean these ... this was a fundraising thing that was done over a number of years. A hospitality tent, I suppose, you'd call it. When I became Taoiseach, I felt that it had outlived its usefulness and it ended but, you know, there was ... I had read about this thing about, you know, the mythology that grows up about contracts being signed and big meetings being held in this tent and if there were, I mean, why would you bringing the media to sit down beside you, if there was all this surreptitious activity going on? Sure, it's all nonsense. The people were attending a race meeting and we, as a political party, a democratic party that has audited accounts, you know, there for everyone to see ... where we were ... where people were able to come and take part in what was going on there. But there was no ... it's no big deal, Deputy. It's not a ... it allows people to set up this, sort of, contact-equals-collusion, sort of, equation that goes on and goes on with certain elements of the political spectrum. So, you know, it's ... the answer ... to come to the substantive part of your question, which is nothing to do with the tent at all, the substantive part of your question is was: do people or have people in that sector influenced me as Minister for Finance? No is the answer. I am my own man and I meet many people. I meet many people before a budget; I meet the Construction Industry Federation; I meet the Irish Bankers' Federation; I meet the IBEC; I meet the trade union movement; I meet St. Vincent de Paul; I meet voluntary organisations. I listen to what everyone has to say.

I don't think it's a practice even that's continued now, someone was telling me. But I did all of that and I'd meet them in my daily life as a politician when I was there for 27 years and I can give you an assurance, Deputy, an absolute, unequivocal assurance that any decision I ever took in the public policy area was what I regarded to be in the public interest. And I am not owned by anybody, I am not beholden to anybody, I am my own man, I always have been and I am very proud of that fact and the fact that you might be-----

Chairman: Don't make a judgment, please. Just answer the question.

Mr. Brian Cowen: No, the fact that other people might be involving themselves with other people, I don't make any judgments on that. I haven't been involved in any of this sort of nonsense at all. It's just as ... it's a charge that is thrown out there. And by the way, Deputy, if we were so ... if all these people were so beholden to, because of all these donations they were supposed to be giving us, why is that for all the time that I was ever involved near the leadership of the party, we were in constant debt? Constant debt.

Chairman: Final question, Deputy Higgins and then we will break.

Deputy Joe Higgins: Yes, well, the question people would ask, Mr. Cowen, is why so many of the major developers, many of whom finished up in NAMA, were patronising and funding the major party in government for a considerable period of time?

Mr. Brian Cowen: They weren't patronising and funding the party all the time-----

Deputy Joe Higgins: I'll just finish the question-----

Mr. Brian Cowen: I can answer the question because it needs to be answered-----

Chairman: I'll just allow-----

Mr. Brian Cowen: You made an assertion. It's not that ... most of our ... most of ... 80%, 90% of the funding of the Fianna Fáil Party comes from a one-day national collection and a draw, a members' draw. Look it up, it's in the audited accounts.

Deputy Joe Higgins: Mr. Cowen, the people that were funding your party, some of the people that were funding your party, were people who-----

Chairman: Ask the question now Deputy, and I'm going to a break-----

Deputy Joe Higgins: -----who were heavily involved in serious land speculation in the course of the bubble, drove the price of a home for an ordinary person up massively, for example, and other downside effects. Now can I ask you Mr. Cowen, do you expect the ordinary people out there who have-----

Chairman: Ask the question-----

Deputy Joe Higgins: No, do-----

Chairman: Deputy, we-----

Deputy Joe Higgins: No, Mr. Cowen has replied to my question. Just a final-----

Chairman: I know, I am going to go to a break shortly-----

Deputy Joe Higgins: Just a final question-----

Chairman: Deputy Higgins, Deputy Higgins. I'm going to make mention - there is a lot of evidence book work has been done here today. There are questions that we need to get through that relate to the evidence books being together. Mr. Cowen, I see in front of him has a lot of yellow tags on them so he's after reading them. The members, I assume have read-----

Mr. Brian Cowen: It's just to fool you, Chairman.

Chairman: You're doing a good job, you're doing a good job, Mr. Cowen ... and this, we have a report to complete at the end of this basis. If members want to have political discussions, head up to the Chamber there or head out to the plinth or whatever - there is a nice day out there I believe; we are down here in the basement - and have those discussions. But what we need to do here is to complete a report at the end of this work and we have to be dealing with evidence and questions and answers. So in that regard, Deputy, final question and then we are going to go for a break.

Deputy Joe Higgins: I'll just leave it at that, Chair and when I wrap up, I have some further regulation questions.

Chairman: Okay, all right, so with that said, it's now 11.33 a.m. I'm proposing that we take a break. I just need to keep the committee in private session for a moment to deal with some notifications and suggest that we return at 11.50 a.m., if that is agreeable. Agreed? Okay thank you.

The joint committee went into private session at 11.33 a.m. Sitting suspended at 11.40 a.m. and resumed in public session at 12.06 p.m.

Chairman: Okay thank you. All right, that said, I now bring the session back into public hearing is that agreed? Agreed. We are continuing our engagement with Mr. Cowen this afternoon now and if I can invite Senator Sean Barrett. Senator you have ten minutes.

Senator Sean D. Barrett: Thank you Chairman and welcome back Mr. Cowen. The memorandum of understanding between the Central Bank and the Financial Regulator dealt with the responsibilities of both organisations. Was there enough clarity in that?

Mr. Brian Cowen: I think there was although I think that there was a sort of a ... from the beginning, I am only observing or giving a view whilst not being there, I get the impression that there was a very strong effort to make sure people worked well together and that good relationships were established. I certainly know that the Governor of the Central Bank was very anxious that that would be the case and every of these new organisations set up so there are small changes from the past, you know, things need to bed in fairly quickly and I know that they worked very hard on that, so personal relationships as I understand it were good. I don't believe that, given what is under investigation here, that there was confusion of such a nature that people couldn't do their job. I just feel that there seems to have been a position where financial stability issues seemed to be left with the Central Bank Governor perhaps, when there was an input required from the Financial Regulator, and the Financial Regulator left to deal with individual institutions when maybe people in the Central Bank should have just let them know if they had concerns. It seems to me that there was a separateness there that whilst understandable in terms of the statutory powers that were assigned to both bodies and despite the fact that there was an effort to have a good working relationship, it may have been the case that people didn't want to tread on other peoples' turf to the extent that maybe they otherwise would were the structure different.

Senator Sean D. Barrett: Was there an expectation that the Governor would invoke his rights under the MOU and intervene with the Financial Regulator and did any examples of that cross your desk?

Mr. Brian Cowen: No examples of it crossed my desk that I am aware of but I do think yes, that there is no doubt that the macro-prudential responsibility trumps a micro-prudential responsibility any day of the week. If it is a case that the Central Bank Governor feels that the problem in a specific bank could have wider ramifications or is the first of a trend of issues that may arise in other institutions, in other words it becomes a financial stability issue more quickly than being regarded as an isolated case, that requires a level of communication between them that is very full. So I think that the Central Bank Governor had that reserve power but obviously, based on the information that was coming through on the individual interface with institutions, it didn't seem to be a concern that a directive from him was required. He trusted the information he was getting.

Senator Sean D. Barrett: Thank you. Can I bring it to your statement today and the bullet point 27, if I may please? "The Central Bank and the Financial Regulator's office had significant resources in dealing with the supervision and regulation of the lending institutions." We had evidence that I think there was only 35 people in charge of prudential regulation and one person was covering both the Bank of Ireland and Anglo. Were you surprised?

Mr. Brian Cowen: Yes, that did surprise me. I mean, it is an internal management issue. The total number working in those two organisations as you know is quite substantial and one would expect that front-line prudential staff would number greater than what we heard was the case. But I would make the point that, you know, were it the case that they were dependent on public allocation of money to do their job, I would listen to a criticism more ... better, but I think they have, since they were elected, since they were set up, there's a 50% contribution from the balances of the Central Bank and a 50% - approximately - contribution from the industry itself, and I know there might have been a small bit of time to set that up. But there's no reason whatever that there should be a stretching of staff in terms of dealing with these big institutions if that was the case. I think that needed to be ... and the fact that it might have been like that, sort of, might have set a tone with the financial institutions themselves, that they were being relied upon to give accurate information and that they were almost doing a regulatory job within the bank, which would never be the case; commercial considerations will always win out, as you know. So, the fiduciary relationship is to the shareholder in that case, rather than the wider consideration.

Senator Sean D. Barrett: Thank you. On your bullet point 25, it says: "...there is no evidence that the Financial Regulator did not have adequate powers to deal with the emerging situation...". We did have evidence, I think it's in Honohan, that it took eight years of correspondence with what he calls Bank A, I think, which was pretty unsatisfactory to read in retrospect.

Mr. Brian Cowen: Yes, I mean, that shouldn't ... that clearly is a, sort of, a ... see, what was happening and what ... you'd get the impression almost that you were dependent on moral suasion rather than statutory provision and, whilst, you know, that might be the case when you're trying to explain the public, you know, to have concerns about rising interest rates, or to be careful and prudent about how they go about their loans with the various institutions; in other words, bringing that information to the public so that they can take that into account in terms of their affordability of a loan that they were considering taking out, but, at the end of the day, you don't determine that behaviour. You try and influence it, but in the question of a regulatory situation, I think that that's a length of time where, you know, clearly, the recipient of the correspondence - put it that way - would have not have felt that an administrative sanction was any way near.

Senator Sean D. Barrett: And going on to 29 of your bullet points: "The Department of Finance did not see its role as second guessing the work and assessment of the Cental Bank and the Financial Regulator's office...". Was that not their job? You know, rather than take everything on trust, see what's going on here?

Mr. Brian Cowen: Well, I'm just talking there in the context of resources. I'm talking in the context, you know, you have an organisation like the Central Bank and regulator, who are independent. I think it's important that that independence be respected. It doesn't mean you don't have oversight in broad terms; I'm not suggesting that, but you can't ... I don't think it's good practice to have what may be termed, or could be interpreted, as political interference in the independent regulatory function, which would have been the case were there representations coming from the Department in a regular manner, but one would have a general, overall view of policy, you know, what were the policy drivers in the regulator's office, and the statutory functions that were laid out would be respected. It doesn't ... I'm just making that point, it doesn't suggest ... I just don't accept that there was a resource issue in figuring out what could need to be done in any given set of circumstances. That was a decision that you had to make yourself and assess.

Senator Sean D. Barrett: But somebody to point out to you, "Minister, credit's going up at 25% a year. We're now linked with Germany, where it's going up at 4% a year; this could end in tears." I mean, somebody from the Department of Finance surely-----

Mr. Brian Cowen: Yes, well obviously ... obviously - not interrupting you - I mean, obviously, Senator, there was, on the macroeconomic side through the stability reports and others, and indeed their own assessments, they would have a view on that and there was a concern expressed. The problem is that the assessment of that risk was that it was less ... that it wasn't an issue that was going to materialise in the form in which it did. When you have ... and I'm trying to emphasise here that when you have an economy growing at the rate that the Irish economy was growing over the previous ten years, and when you have the level of investment opportunities that were being identified in the private sector and when you have an increasing trend of Irish banking ... which is not just about Irish banking, this is a trend that's going on in all banks, this originate and distribute model, where, you know, the mutual funds are as big as the banking system now and there is ... you know, you can get access to capital more easily in globalised markets than would have been the case ten, 15 or 20 years ago. But the point you make about lending growth, yes, it was unfortunate that there wasn't an intervention sooner on lending growth. I also make the point that, you know, reducing lending growth in terms of the capital formation of the Irish economy ... I mean there isn't as much indigenous wealth in this economy as there would be in the French economy or a German economy, so you have to get access to capital from the outside. Once you get a good return on that capital, you can repay your loans and progress with your business model, but it's ... I just ... to answer your question directly, I don't suggest that the Department of Finance should be agnostic about these issues, but, at the same time, they weren't in the business of interfering.

Senator Sean D. Barrett: Your allied point on page ... at point 68, the failure to adapt to membership of the euro, what should we have done in those years?

Mr. Brian Cowen: Well, I think what was seen at the time was that we were part of a bigger, regional, functioning market now and the whole question of balance of payment deficits didn't have as big an influence on economic thinking than would have been the case when there was a more fragmented economic model in the European Union, because you were seen as part of a bigger picture. It doesn't mean that ... I mean, deficits can be ... you can look at this both ways but some of it is based on the amount of activity that was going on, even in one that's as ... where raw materials are as dominant, in terms of home materials, as outside, imported materials in construction, there was still a lot of importing coming on in that sector, which would explain some of the deficit. But the issue ... I mean, there's been a lot of discussion on it and you're more qualified than I in terms of what the design faults of the euro were and are, and what needs to be addressed. But clearly in the absence of a ... when you have a monetary policy that's based on averages across the Union, which was no longer as homogenous as it was economically before enlargement, we had a situation where those of us on the periphery - not just Ireland, but Portugal and Spain and others, and Greece - were ... found themselves in difficulty when the interest rate, the real interest rate, was too low, if you like, for the amount of demand that there was in the economy for the money in the funds that was being used. But there was nothing we could do about that, so we had to find another mechanism and one of them is the whole question of incomes policy and, as I say, I was using the fiscal policy instrument as a means of avoiding people having to seek higher wage increases by keeping more of their existing funds in their own pocket rather than being taken from them in tax.

Senator Sean D. Barrett: Could the Central Bank have helped in relation to the foreign flows of money that came in-----

Chairman: Final question now, Senator, thank you.

Senator Sean D. Barrett: Thank you, Chairman.

Chairman: Final question. Go on, quickly, yes?

Senator Sean D. Barrett: Oh final ... oh sorry, yes. I'm on shorter rations of time, sorry. Could the Central Bank have assisted in that regard? Could they have controlled the asset price inflation caused by these flows when we did join the euro?

Mr. Brian Cowen: Yes, well, I think obviously we ... you know, with hindsight now, there's lessons to be learned. I mean, there is no doubt that what has really come into focus as a result of this crisis is the cross-border effects of international banking. When international banking gets into trouble, in a way that wasn't the case before a globalised system that we have now, it can have huge effects right across the whole developed economic system and that is something that wasn't understood. Hopefully, the Single Supervisory Mechanism now at EU level and the accretion of competences at the EU level will improve what was a badly co-ordinated effort, at member state level, to be better understood and better implemented in the future.

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

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

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Mr. Cowen. I only have ten minutes, so I'll be as brief as I can and I'd ask you, if you can too, to be brief. Your predecessor as finance Minister, Mr. McCreevy, was here yesterday and, in describing his own period as Finance Minister, he said: "...we were most responsible than any other Government in the history of the State". Briefly, how would you characterise your own time as Minister for Finance?

Mr. Brian Cowen: Well, obviously, we had ... we took our responsibilities equally seriously but I think that, if you think back to those times, there was a great deal of ambition and hope and aspiration for where the Irish economy could go and we had come through a ten-year period of continued growth and it was a question of whether you're now going to increase the productive capacity of the economy or not because that is going to ... now, obviously, there were cost competitiveness issues coming into play, which happens on a tight labour market situation, despite the number of immigrants coming, the number of emigrants coming home, the demographic of our population, the number of jobs we were creating was, you know, averaging 60,000 per year for ten years and it's a phenomenal level of growth. But it's also the case that domestic demand was becoming a bigger component in our growth than exports and that ... we lost a little sight of that probably and needed, in the aftermath of the crisis, to regain our competitiveness position by a, sort of, an internal devaluation through wage reduction, which was achieved, and probably the only place it has been achieved, I would say, in an orderly fashion.

Deputy John Paul Phelan: Do you view your time, though, as successful, as Minister for Finance?

Mr. Brian Cowen: Well, I mean, I ... obviously-----

Deputy John Paul Phelan: In the context of the times.

Mr. Brian Cowen: Well, in the context ... I mean, if you look at ... I look at the ... the budgets I passed. I'm glad of the initiatives ... I'm happy with the initiatives I introduced. I think there were many people ... it was a more socially inclusive way of doing things in my ... in terms of what I saw as the priorities at the time. I don't think you can have this level of economic growth on a continuous basis and say to people that you have to wait, there's another ... there's another issue here, we have to hold back another year, another year. I mean these people had been ... there were many people who had been left outside the system because they hadn't strong voices for them before that, and I was ... I had been in Health, I had prioritised that particular area that I've mentioned in my speech, and I felt that they needed to be assisted and ... and you know, as I say, the medium-term projections remained positive. And, unfortunately, when that changed in the way it did, clearly we have a totally different situation to deal with. But when we were there ... and when I was there, I'm happy with ... we did what we did but, obviously, with hindsight now, I would do things a little differently, clearly.

Deputy John Paul Phelan: I want to turn to Vol. 1, page 29, of your own evidence books. It should come up on the screen in front of you. It's evidence given by Professor Honohan on the issue of directors' compliance statements for the commercial banks ... the Financial Regulator made initiatives regarding directors' compliance statements and fit and proper requirements and they were either delayed and mitigated or not implemented. For example, it's noted in the Honohan report that you felt it was important to assess competitiveness issues rather than go ahead and implement the proposal. Do you think that, during your tenure as Minister for Finance, you gave sufficient backing to the regulator on that initiative?

Mr. Brian Cowen: Yes, well, I've seen this issue come up in ... in ... with earlier witnesses and I, sort of, made some inquiries about this with the Department to try and get what the factual situation was, Chairman. I don't have the paper with me but my understanding, to answer your question, is that we didn't ... we didn't tell the regulator what to do in this situation. The regulator had decided that having had that provision in the Act, to do a consultation process with the industry, who were raising some issues about it, that he would defer going ahead with it until that consultation was completed. He notified Kevin Cardiff in that section about it on ... in April and there's a letter on file from me which is confirming what was ... what was indicated to Kevin Cardiff, and I think that's being interpreted, either in Nyberg or Honohan as we, if you like, interjecting and making "Oh you do it this way rather than that way". I'm ... I'm assured by the ... by the official who dealt with that, Mr. Beausang, that the situation that I'm giving to you is what happened. We didn't ... we weren't involved in influencing the decision. He made his decision. He informed us, and we confirmed we could live with that, although there's a note in the file as well from Kevin Cardiff, or in the letter to ... to a person in the regulatory authority saying that they still had, on a case-by-case basis, the right to do this if they wished to do it. So, it's-----

Deputy John Paul Phelan: It's------

Mr. Brian Cowen: -----an administrative matter, it wasn't a policy issue with me.

Deputy John Paul Phelan: Professor Honohan in his report and in his response on page 29 to a question from me indicated that it was this letter, and I'm going to quote him directly, "The Minister's letter would have been the end of it." Furthermore, he went on to say that that does not mean there was something wrong, *per se*, with you writing the letter.

Mr. Brian Cowen: Yes, well, as I say, I mean I don't know what Professor Honohan's interpretation of his investigations are. I've dealt with the official directly dealing with it. To be honest and truthful about it, I wouldn't be in a position to recall at this remove what the circumstances were in relation to that matter. But I am assured by the official that what I'm saying to you is correct.

Deputy John Paul Phelan: Okay. In a statement to the inquiry, the former Secretary General of the Department of Finance, John Moran, speaks of an "acute lack of physical capacity at governmental level", and goes on to say, and I quote, "Budgetary spending decisions had been funded in the years leading up to the crisis from what were very fragile revenue sources, built on the quicksand of an economic performance overly concentrated on one over-blown sector - property." Could you give us your view on the reasons why the potential for falling cyclical tax revenues had not been addressed by you in your tenure as Minister for Finance?

Mr. Brian Cowen: Well, they were address by me in my tenure. As I say, when the ... when it became clear that we had reached, if you like, the point where there was an indications of a ... of a soft landing - this is the question of stagnating high prices and then moving towards a gradual reduction, when that became apparent in the 12 months, August to August, '07-'08, when the reduction was 3.5%, we made a view ... we agreed that what was ... what had happened up to then was not sustainable ... it was not a sustainable level of house building out into the future. It was a spike, if you like, that was trying to meet a demand which needed to be ... in other words, the supply side was finally, hopefully, meeting the demand. That was the analysis.

But we budgeted in the 2008 budget, a couple of months later, for only, as I say, 40... 45,000 house completions the following year, as against possibly double that in the ... in the current year, 2000 ... the year 2007. So we did, in fact, we were ... we did take that reduced future resource ... that future revenue source into account in our budgetary framework for 2008 and we produced the budget we did in 2008 on the basis that there would be a reduction. If there was to be ... it's reckoned that that is about the, what would be regarded as the normal demand flow of house completions, given where the demographic is at the moment, maybe 40,000. So we were ... we were budgeting for that; we were accommodating that in our figures and we were moving on for the future on the basis that we would have a 40,000 house completion figure rather than an 85,000 or a 90,000, which was clearly a spike that wasn't sustainable.

Deputy John Paul Phelan: And do you think that that, in hindsight, was a late realisation about the over-dependance on ... on property taxes?

Mr. Brian Cowen: No. It wasn't a late realisation, it was the fact that once the change was coming that we were budgeting for it. But I keep emphasising, you know, Mr. Moran now is talking in the context of a crash. You know, at the time - I don't know where he was working at the time, he may have been in the Central Bank - there was no one suggesting that what happened was going to happen. So, let's be fair about it - we're all very wise in hindsight with 20/20 vision. But we were accommodating the change that was taking place, that's the point I want to make. It wasn't a question of going on budgeting and seeing that there were a change in output and not accommodating that. We were accommodating.

Deputy John Paul Phelan: I want to turn now to Vol. 2, page 42 of ... a graph that has been seen many times for different witnesses. It concerns the ... the June fiscal framework and the comparison between that and the actual budget outcomes. It's on page 42 of ... of Vol. 2. That's it there. It comes from the Wright report. The June fiscal framework proposals for the upcoming budgets were ... were given approximately ... were given approximately five to six months before the budget was finally announced. However, major revisions, as you can see, to the fiscal framework proposals were frequently made prior to the budget. By whom were these major revisions proposed and by whom were they agreed?

Mr. Brian Cowen: The revisions arise ... arose in many cases as a result of direct ministerial discussion with myself ... between myself and the line Ministers as part of the bilateral Estimate process, and they would be ultimately agreed by the Cabinet who would have the Abridged Book of Estimates.

Chairman: Thank you. Deputy.

Deputy John Paul Phelan: Now, my next question is completely different so I might-----

Chairman: Quickly so.

Deputy John Paul Phelan: I want to turn, actually, to ... it's another core ... core document. It's a few of them, actually, Vol. 1, they're all Vol. 1. The evidence of Professor FitzGerald, which has already been referred to, the Nyberg report also. In the run up to the banking crisis there was multiple warnings given by the Central Bank - we've had witnesses from the Central Bank - the OECD, the IMF, the ESRI, Professor FitzGerald and others that, even in some cases, it was described as unlikely that there would be a hard landing. But I want to ask you, really, to what extent did the range of possible outcomes discussed with you, as Minister for Finance ... that they were drawn up ... how did ... you know, these ... you know, potential for a hard landing was flagged by a number of these commentators and outside bodies - what plans were prepared to deal with each of those scenarios?

Mr. Brian Cowen: Well, as you say ... I mean, various ... you know, you say that possibility of a hard landing, which was regarded as unlikely, were mentioned on a number of occasions. That's true. Now, if they said it was likely, you'd have a budgetary process that would seek to accommodate that. If they tell you it's unlikely and instead of housing output coming to an abrupt halt to nil, we'll go from 90,000 to 40,000, then you take that into account, which is what we did. So what you do is, you ally the assessment of risk with what's happening on the ground, what your statistics are saying to you, what your economic impact assessment of that is, and you must ... you must accommodate that in your budget, and that's what we did. So, you know, you can only-----

Deputy John Paul Phelan: I don't want to interrupt you, but we went from 90,000 to 5,000 or 6,000-----

Mr. Brian Cowen: Well, you see ... yes, but that was in the ... that was after, you see ... when we're talking about ... we're talking about August ... when you assess in August 2008 that the drop in prices has been 3.5% from the previous August, you then say to yourself "Okay, there is evidence of an abatement in price. We've seen before that moving this way, it's now starting to go this way. It's not gone to 12%, it's gone to"... you know, so you're saying, okay, absent any major shock, you ... the likelihood of the gradual easing up of the 15% bubble, if you like, was ... was-----

Chairman: You have to finish now, Deputy.

Mr. Brian Cowen: -----was in prospect.

Deputy John Paul Phelan: That's the assessment-----

Chairman: Yes, I just want ... I have to be mindful of the timeline as well, because we can be into this afternoon here, okay.

Deputy John Paul Phelan: Yes, that's fair enough. Yes ... no, I just want to get some clarification. We've been presented with evidence from those witnesses - Professor FitzGerald was one of them - IMF reports, OECD reports, I just ... bar the budget preparations for the budget of 2008 and the adjustment that you calculated in there, what plans were prepared to deal with the potential, at least, for a hard landing scenario? That's-----

Mr. Brian Cowen: Well, there wasn't ... to be honest with you, there wouldn't be ... there wasn't ... it wasn't believed that that assessment was likely, that that was going to happen and so, therefore, you know, you might----

Deputy John Paul Phelan: It wasn't likely.

Mr. Brian Cowen: No, you wouldn't ... you wouldn't be assessing it ... you wouldn't be basing your projections based on that. That's ... that's why we ended up with a crisis all over the place, because everyone's projections went out the window, because you now had a reality where a liquidity crisis plus a ... plus a lending drought, suddenly you had an economy that was moving ahead at that speed suddenly being brought back-----

Deputy John Paul Phelan: In hindsight, should ... should-----

Chairman: Deputy, I'm going to move on. Deputy-----

Deputy John Paul Phelan: -----should those scenarios-----

Mr. Brian Cowen: Well, we did ... well, let's be clear. I mean, the actuality of what happened emerged within 12 months and we made immediate arrangements to change policy and to start addressing the issues that had now arisen which was (a) a banking crisis and (b) the need to cut deficits. And we brought in four budgets, which closed that deficit of €34 billion, as has emerged, by over €20 billion. We went two thirds of the way of the correction in the four budgets in the three years that we had. And that obviously provided the means by which this Administration were able to continue on that track and thankfully, by 2010, we had a GDP growth ... a GNP growth of 0.2%. We had steadied it - it had gone from -3% in '08 to -8% ... more than -8%, a contraction at the end of '09, which makes it doubly difficult when you're trying to close the gap between revenue and expenditure because your expenditure ... your revenue is going down as well as your expenditure going up and by ... as a result of the pretty tough measures that the Minister for Finance, Brian Lenihan, with the Government support, made, we had got to a position in 2010 on the macroeconomic front - we had other problems but on the macroeconomic front, that contraction had been arrested-----

Chairman: Mr. Cowen, now, you're out of time.

Mr. Brian Cowen: -----and-----

Deputy John Paul Phelan: I didn't ask him any of that-----

Chairman: Sorry, you're both out of time-----

Deputy John Paul Phelan: -----the last two minutes.

Chairman: -----and you're out of timeframe as well because we're into 2010. I just want to get one bit of shape on this before I move it on. With regard to either a soft landing or a hard landing, Mr. Cowen, are you aware or familiar with any testing or modelling of that that was conducted specifically by you and your Department, not external opinions such as the IMF or the OECD, but actually modelling and testing of that theory that was brought to your attention by the Department of Finance?

Mr. Brian Cowen: The question of the soft landing would be incorporated into the Department of Finance's work.

Chairman: But was that research that the Department of Finance done or was it observations from other financial institutions such as the ESRI?

Mr. Brian Cowen: No, that's the work it does itself ... it would do itself in the context of budgetary preparations, but you will always find ... you don't always find, but you will see that there is always ... you know, there's some ... because ... because they're basically ... they're dealing with the same data within usually the same timeframe, you find ... what's the word? You find a convergence of opinion between these. There might be 0.5% this way or 0.25% but one ... the Central Bank might say it'll be 4.5% growth, someone else'll say it's 4.25% growth, someone else'll say 4% growth - there's a general average position that usually ... usually works out. And the Department of Finance would claim ... the Department of Finance would claim that their ... over the previous five ... over the previous ten years that if you look at it in the forecasting in the context of a ten-year timeframe, taking all the ... you know, all of the predictions over the ten years, that they ended up more accurate than anyone else.

Chairman: Senator Marc MacSharry.

Senator Marc MacSharry: Thanks very much and thanks, Mr. Cowen - welcome. In early 2004, the White Paper, "Regulating Better" set out core principles of good regulation and a programme of actions to give effect to these was drafted and published by the Government. In December 2006, you announced a proposal for moderation ... sorry, modernisation of the legislative regulatory framework. An advisory group was set up by the Department. Based on these facts, would you say that it was the Government who set the tone how regulation should be carried out or was it the Financial Regulator making the decisions?

Mr. Brian Cowen: Well, obviously, the Government ... if you've a legislative framework, it's the Government that makes the decision as to what the legislation looks like. Clearly, in an issue such as this, which is quite complex and specialised, you need to have the inputs of people who are working on the front line, who understand the industry, understand where the trends of the industry are going. So you'd have inputs from all of them. Relating to the specific point you raise about this question of consolidating the legislation into one Act, that was, if you like, a recommendation of the McDowell report, to have a unified legal framework to underpin, if you like, effective and efficient operation of a single regulatory authority for financial services. There was a lot of stuff coming in from the EU as well. There was a lot of directives and things like that. So there was a need to pull this together and to have that, if you like, as a sort of a window to potential investors in the future as to what the regulatory situation in Ireland was, to be able to communicate that in a coherent way rather than having five or six statutes all over the place and directives here and all the rest of it. So, from an administrative clarity point of view, as well as policy clarity point of view, it was suggested that we would do it that way. To answer your question was the tone set, I think, you know, at the end of the day, Government must take responsibility for legislative proposals it brings forward, but I believe that it's ... the principles that are set out in the wider regulation document you're talking about is again about Ireland ... it's in Ireland's interests as a small open economy to have modern frameworks, to be updated in its laws, to have legal certainty - that's an important point for potential investors - to have, if you like, a continuum of policy regardless of political changes of Government - that involves co-operation at the political level, at the Oireachtas level, to make sure people buy into the concept. So that's all part of the democratic consideration of these things. And ... but in a case as specialised as this, without contradicting myself, clearly, you know, the advisory forum that was set up to begin the work on doing a heads of a Bill would involve people from the industry that would be well regarded, have good reputation with the Department of Finance, working with our own draftspeople to come up with a proposal that would meet the requirements not only of today but of the future as well.

Senator Marc MacSharry: Was there an over-dependency on advisory ... I mean ... or was there hands-on input from the Cabinet of the day to say, "Look, we need this, we need that"?

Mr. Brian Cowen: Yes. There was a memo for Government brought to the Cabinet. I mean, the individual Ministers, in this case myself, this was work that we were engaged in. From the time the IFSC was born, it was a relatively new baby - it only came in in the late '80s ... one of the reasons for its success was the fact that there was this ... for a small country, what you expect, a co-operative approach between industry and Government to facilitate investment in an area such as this that would provide good jobs, good remuneration jobs and also good revenue for the country in the future. And I think that, you know, that co-operative idea, which is part of what, I think, is some of the best parts of social partnership - the idea that people who have a stake in this society, and not just in relation to financial services, but in relation to areas generally, that the issue for working people's interests isn't just about, you know, narrow wage considerations, it's about wider issues where they have a say in education policy and ... it's all about consulting people where they have an expertise, to get the job done in a way that puts us in a good position to compete.

Senator Marc MacSharry: Okay, we're just drifting a little bit. Were you aware while you were Minister that there was no enforcement of prudential regulatory breaches in the banks?

Mr. Brian Cowen: Was I aware personally? I was aware that, obviously, there was a new regulatory set-up, that they were engaging with the industry ... and that ... I was aware that there hadn't been an administrative sanction. Now that sometimes indicates to a busy Minister that there aren't as many problems in there as someone else might be saying.

Senator Marc MacSharry: Was that the case? Was it a case that you just weren't told, or were you aware?

Mr. Brian Cowen: As I say, it's an important principle here that I want to emphasise. The independence of the regulatory function must be acknowledged. It's one of the prices you pay. If you want to have a regulatory function that is seen to be independent then it must be independent. And that means that there aren't political inputs coming in from the side to say, "We should be going harder on this fellow, than you should be going on that fellow-----

Senator Marc MacSharry: No, no I get that. But were you told ... it's just that I'm under a bit of pressure on time and I've a few bits to get through-----

Mr. Brian Cowen: Sorry.

Senator Marc MacSharry: So, would it be a "Yes" or a "No" in terms of were you told, "Look, there's been no enforcement of the regulatory regime"?

Mr. Brian Cowen: I don't recall any conversations.

Senator Marc MacSharry: Okay, that's good. Can I ask ... you mentioned there, the co-operative approach of the IFSC, and we've other evidence from the Governor of the Central Bank of the time and since. Was there a policy of "Don't scare the horses" when it came to the IFSC, when it came to enforcing prudential regulatory breaches?

Mr. Brian Cowen: I don't think so. We were interested in ... I mean, we were interested in reputational issues for the country as well. You know, we're not interested in ... this was often wrongly described as a tax haven, even by some in our own domestic political system who didn't know any better. This is a well ... this is a properly regulated International Financial Services Centre, that has high reputation world wide, for competence and specialisation.

Senator Marc MacSharry: We have evidence from the Central Bank and regulator to say about the number of contrarian views that were there about various things over the period. Did the Governor or the regulatory authority chairman ever advise you of contrarian views within either the regulator or the Central Bank?

Mr. Brian Cowen: No, I would get ... once a thing comes to the Minister, you get whatever the official position is. But if there are ... he may have emphasised to me certain things about downside risks, or upside risks, you know, he may ... his job would be to reflect if people are saying, "Look I'm going with this report, but I'd like you to bring it to the attention of the

Minister that some of us are a little bit more pessimistic about that than others." I'm sure any conscientious chairman or chief executive would reflect that and sometimes I would hear the Governor speaking. And he's a very measured man. He's not a man prone to exaggerated language. He's ... he would give the view and would give it, I would think, conscientiously.

Senator Marc MacSharry: Can I ask ... I'm just, and if you could answer me quickly on this because it's leading to another question ... When one becomes a Minister first, would you say one is more probing at that stage than, say, when one is a Minister for a term or a term and a half?

Mr. Brian Cowen: I don't know. It depends ... it depends on what you're dealing with. Depends on ... I don't think so. I mean, are you talking about a bit of ministerial capture now, are you?

Senator Marc MacSharry: No, no, just in time ... does one become reliant and trusting of the advice that comes?

Mr. Brian Cowen: Well, what one does is, one usually identifies very good people very quickly and realises that maybe there are some other people not quite as good, and you, sort of ... you know, that happens in every organisation. But, I think that ... you know, when you're younger probably, you may be a bit more of a firebrand than 20 years later.

Senator Marc MacSharry: So, and this isn't to give any judgment at all, but it's merely to ask, if ... if hindsight were real time, was 16 years as a Cabinet Minister too much? Were we on auto pilot as a Government?

Mr. Brian Cowen: No, I don't accept that, not at all. I honestly don't accept that. I mean you ... the size of the problems that we ultimately had to deal with were huge, and there are some states who are trying to deal with them now and are not as advanced in their resolution as we are. But when you're there, you see what you do is, you have a successful industry, it has a good reputation and you're trying to develop that, so you go onto the next step. So, this modern legislation wasn't about,"Oh, let's sit on our laurels and just let's do a little legislative job." This was about saying where are the trends going, what ... where are these industries going in the future, how can Ireland continue to position itself in a competitive way? And there was nothing wrong with being competitive but it doesn't compromise ... and this is my basic point to you when you're hearing some of these arguments, it doesn't compromise, or undermine the primary function, which was to regulate effectively. There were adequate powers, there were obviously lessons to be learned as to why things weren't picked up and, you know, there are lessons that the Department of Finance has to learn. There's lessons that Ministers for Finance have to learn. There's lessons the Taoisigh have to learn. I'm not suggesting ... that there ... anyone is exempt from being scrutinised on all of this stuff but I don't accept that we were, sort of, sitting there, you know, not worrying what way it goes. The country, let's remember guys, the country was going pretty well ... it was going well, we had a lot of success. Now what happens is then when things change, you have to be flexible, you have to be ready and you have to be prepared to move in a different direction. And sometimes, unfortunately, that can involve you in some very unpopular decisions but they have to be taken in the interest of trying to rebuild and recover as quickly as we can.

Senator Marc MacSharry: Finally, to what extent did social partnership frame the budgetary process and did it serve us well in the period?

Mr. Brian Cowen: Well, I certainly think, you know, I think people ... it's become very fashionable now to run down social partnership. I remember the '80s. I remember being a backbench Deputy in '87 and how difficult things were. And I believe that the methodology that we used then, that was undertaken by the then Taoiseach, Mr. Haughey, was the right way to go, and is the right way to go. We can't have, like in some countries, traditional arguments about capital and labour based on old 19th century models of, you know, "You come in here and talk to me about your wages and you've nothing else to say about life." You know, we have working people, we have educated people in this country. We don't have, thankfully, a class society. We have a certain sense of community and society about us. I believe that the social partnership model in many ways worked very well. Obviously, there were some mistakes, there was over-ambition in some respects. There was maybe a need to re-look at the institutional set-up from time to time. But it did work for this country and it put everyone on the same page without compromising people's right to represent their own interests. And what we now have, what's called by the present Government, social dialogue. And-----

Senator Marc MacSharry: Did it frame the budgets of the time?

Chairman: Let him answer the question, Senator.

Mr. Brian Cowen: It framed the budgets. Of course it helped frame the budget. You had social partnership programmes to implement. It deals with people but they were on the basis that we would have a ... it was an overall fiscally and financially responsible framework. And, unless you have people all facing in the one way in this country, it is very difficult to get things sorted. And let's remember, you know, that whilst, you know, we went through the crisis and we weren't able to, through the social partnership process, come up with some agreements on reductions in pay, etc., which, you know, is understandable, you know, would be very difficult to achieve in the best of times, the fact is that the culture that had been inculcated through social partnership meant that we got that resolved eventually, and we got it resolved in a negotiation. There are other people who don't have that vehicle for social partnership, who are now struggling greatly, to the detriment of many people that those interests represent. And I think, you know, we shouldn't take it for granted - yes, a remodelling of it; yes, ensure we don't make same mistakes as the past; maybe yes, less of the detail and a bit more generality, rather than getting into the, you know, drilling down into every area of policy. But I do believe that yes, people ... working people are interested in the number of places in universities as much as they are interested in what the health service is like as much as they're interested in what social welfare provision you can make for our ill and sick ... these are wider social contracts that are ... should be held together by the widest possible consensus of people and social parity is something, by the way, that is a stated aim and objective of our own party to pursue.

Chairman: Thank you, Mr. Cowen. Deputy Michael McGrath.

Deputy Michael McGrath: Thank you, Chair. Good afternoon, Mr. Cowen. You had an exchange with Deputy O'Donnell earlier on about the Indecon and Goodbody reports that you commissioned following the review you announced in your first budget in December '04 into property-based tax incentives. When you commissioned these reports, had the Department of Finance carried out their own assessment at that stage of the costs and the benefits of these property-related tax incentives?

Mr. Brian Cowen: I don't believe so. I don't believe they had. There was a sort of a decision made that we'd end it at such a date, but I don't believe there was the detailed review that we had done. I don't believe so.

Deputy Michael McGrath: Internal or external or from Revenue or ... not that you're aware of?

Mr. Brian Cowen: I don't believe ... because what ... I don't believe so because it would only come maybe at the time of the Finance Bill in 2006 when you're drafting the provisions for the implementation of a ... the abolition of a relief in the absence of a comprehensive review. But I think having a comprehensive review makes for a better appreciation of not just the issues at hand, but the reforms that are now dictating how that would develop in the future, were it deemed necessary by some Government to reproduce a property incentive.

Deputy Michael McGrath: So did you feel, in bringing your first budget, that you didn't have enough information on your desk to make a final decision on the future of those incentives if there was no assessment?

Mr. Brian Cowen: I'll take, you know ... I could've ... I just arrived in mid-September. We were in the process of maybe seven or eight weeks away from a budget. I just felt I'd like to review all of this in a structured way, in a comprehensive way ... to have all the facts and figures ... you know, do it in a ... because it wasn't due to go until 2006 anyway, so let's use from September '04 to June '05 to get a very full picture of where we're at.

Deputy Michael McGrath: Chair, can I ask that core booklet, Department of Finance, Vol. 1, page 1 would be put up on screen. And this graph, Mr. Cowen, highlights the extraordinary growth in credit during your tenure as Minister for Finance and Peter Nyberg in his final report goes into this in some detail as well, that during the years in question, overall loans doubled from €200 billion to €400 billion. He says from '02 to '08, 80% of all credit growth was property-related, that by 2008, property-related lending reached 60% of the total loan book. He describes 2004 to 2006 as a key period of high growth and that, "net lending to the [C and P] construction and property sector increased at a compound annual rate of almost 45%, enough to treble exposure in this sector over this period". Now, my question, Mr. Cowen, is did you challenge the reports that you were getting and the advice you were getting from the Central Bank, the information in the financial stability report, while highlighting risks was reaching a central scenario, that ... that this would all work out fine? But just looking at that graph and the very steep growth in credit, particularly in property and construction, did you challenge strongly enough the assertion that this would all work out fine?

Mr. Brian Cowen: Yes, I mean, obviously, at the time, one was recognising that there was an increasing part of economic activity being taken by the construction sector. Now the responsibility for whether that lending was good or bad should be laid as the responsibility of those who lent it. We live in a market situation here. Those lending decisions were made by bankers and Irish PLCs. Now the question of, did I regard that as an imminent risk, I have to say I didn't regard it as an imminent risk. That's a misjudgment of risk that has taken place. It was basically, again, the belief that, if you look at the demographics, if you look at the increased disposable income, if you look at all of these things that you've heard before, as components in what was driving demand, that that was the reason for it. And there was very low impairment rates on the loans. No one without a job was getting a loan. You know, we had a position where employment was high, prospects were good, people were optimistic about their futures, the medium-term outlook was reasonably good, people were making decisions. And what we were doing ... what I was trying to do was, "Well, look, we need to make sure that the supply side of the house gets to this point quickly because this obviously can't continue *ad infinitum*", and in fact that's what happened. We got to a plateau and it started to recede.

But the problem is, Deputy McGrath, as you know, that when the financial crisis hit, we were exposed. There's no question about that. And the banks were exposed. But, you know, I'll be honest and say that the 20% year-on-year increase in lending growth was probably something that, in hindsight, needed to be dealt with sooner than it was, but with interest rates reasonably low and staying reasonably low, the price in the property market ... I'd done what I could in relation to the property incentives, so far as they had a major ... People are saying in the research papers on this that attach to the stability reports, that in fact the rate of economic growth is a greater factor in the demand for housing than anything else. So it was our success that was driving this, if you like. People were quite confident about the future and, unfortunately, that didn't work out at the end of the day.

So, to answer your question, did I question it sufficiently? Clearly, it wasn't questioned sufficiently and I accepted the consensus view. I've said in my statement that I wish I were more questioning or that we looked at other scenarios. I just have to accept it. That's an issue to be looked at by this committee. But as I say, there were good grounds for believing it was coming this way rather than that way and the financial crisis decided it came a different way than we thought it would go.

Deputy Michael McGrath: Mr. Cowen, when Brian Patterson appeared before this inquiry, he told the committee that there were concerns raised in a joint Central Back and Financial Regulator committee ... the financial stability committee, as I understand it, about the strength with which risks to the banking system should be identified in financial stability reports, in particular, as he put it, "As the clouds gathered." But it was believed that these concerns could be discussed more directly in one-to-one meetings between the Governor and the Minister. So my question is, in the meetings that you held with the Governor discussing the financial stability reports, was it made known to you that there were differences of opinion at board level on the Central Bank about the risks ... about how serious those risks were? To what extent was more emphasis placed, for example, in those discussions on certain aspects of the report than might've been evident from reading them? Did you get more information of a material nature from your discussions with the Governor about the financial stability report than you did by just reading the reports?

Mr. Brian Cowen: No, I think the reports are very comprehensive when you read them. But the Governor's job was probably to pick points of emphasis. And one of the emphasis, you know, in fairness to him, I'd have to say he was ... you know, he wasn't a man that had ... you know, would run away with himself, he was very grounded and would point out these downside risks and we would discuss them. And the need to take into account reduced output coming into '08 was something that we did. And so, he was listened to in that respect.

I mean, he would emphasise that. Now would he say to me, "By the way, it's Mr. X or Ms X on the financial authority that's saying that rather than me or someone else," no, he wouldn't present it that way. But he presented, I believe, conscientiously. He did ... he did always talk about downside risks. I mean, he never came in and said, "Everything's hunky-dory", in fairness to the man. Because, you know, he's measured, he'd do a professional job, he'd set out what the risks are and then he'd explain why they'd come to the conclusion they'd come to. It's like everything, I mean, economic forecasting, it's not an exact science either. I mean, they give you your best assessment and you have to use your political judgment. And I would say to you that if there were concerns expressed at board level without him saying, you know, "This is a dissonant view or a dissident view.", he would give the views. And as I say, I recall him giving those views and being straightforward and professional about it.

Deputy Michael McGrath: And did you ever get a sense that the actual content of the published report had to be more benign than maybe the board collectively felt it should be because of the implications of putting some of those concerns in writing? And I'll just give you an extract from what Mr. Patterson said to this inquiry:

> As the pressure cooker developed more and more pressure inside it, the financial stability report should have reflected greater concern, but paradoxically, it had to be even more constrained than it had been before because of the fear of bringing about a run on the banks. So, it got ... you get caught in this kind of dilemma, that no matter what way you jump, you're in trouble.

And I put it to him that was there an overriding requirement or a feeling of necessity to, in a sense, dilute or water down any major concerns that the board had, and he said "Yes". Did you ever get that sense, that the published report did not properly reflect the views of the Central Bank board and was that ever conveyed to you verbally in meetings with the Governor or anybody else, that they were afraid to put things in to that report that would, as Mr. Patterson put it, "spook the horses"?

Mr. Brian Cowen: Well I would be careful to avoid any unforeseen consequences or to, you know, unplanned for consequences. I mean it's a careful operation this whole part, and as you know when you listen to central bankers, whether it's ECB or anything, you know you change a phrase from what you said last month and everyone thinks interest rates are going up you know. They all speak in quite formulaic ways for good reason in terms of avoiding market interpretation of what they're saying and people getting the wrong idea of where the thing is going.

But to say to you that ... that from my point of view, you now, I have ... I had good respect for John Hurley, I believe he's a straight shooter, I believe he ... he gave me the considered view of the board. He mentioned downside risks always, you know. He wasn't in there buttering me up or saying what I wanted to hear, he was a very good public servant, in my opinion. And obviously you know when things go wrong, everyone gets blamed and "Why didn't you do this?" and "Why didn't you do that?" But I think that he let me know what he believed the Central Bank position was and there would be nuances, there'd be points of emphasis from time to time. But it was never sort of ... by definition the Central Bank never say to you, "There's no problem." You might actually hear from them a few ... when they're saying something to you in their presentations and they'd be saying to you, and you'd say "Well is there anything ... how's ... is there anything good happening at all?" sort of thing. You have to balance it out. But he would give, in my opinion, an accurate view. I don't know what Mr. Patterson's referring to. It's probably best put to Mr. Hurley as to whether there's any substance to that idea that Mr. Patterson gave to you.

Deputy Michael McGrath: Now finally, Mr. Cowen, I'm not sure if you heard Mr. McCreevy's evidence yesterday when he was asked about budgets approaching elections. But I want to ask you about the approach to the 2007 general election and what impact pre-budget submissions and follow-up meetings with industry organisations and the imminent nature of an election, what that had in terms of impact on your approach to the budget? And I say it in the context of what Governor Honohan said in his report when he looked at public spending and he says on page 30 of that report, "And in a final twist, real expenditure rose by over 11 per cent in both 2007 and 2008, an unfortunate late burst of spending which boosted the underlying deficit at almost the worst possible time." How do you react to that?

Mr. Brian Cowen: As it turned out, again this is a sort of a reflection by an economist after the event. But look let's ... I'm going to be straight and honest with you here, I mean ... put it this way, I'm not surprised there might be a difference of opinion between the fiscal council and the Minister for Finance going into the budget preparations this year. And that's a very legitimate variation of opinion by the way, I don't ... I don't see that as something either surprising or wrong. The Minister has ... and his Government have a programme that they want to set out there and they believe what they think is the room to manoeuvre and they'll use that and do that responsibly I'm sure, from their point of view. So that ... you know, we don't live in a technocracy here, we live in a democracy ... and you make decisions and you've to stand over those decisions. I've explained, going into that budget same as others, first of all the pre-budget submissions treated the very same as at any other time, courteously. We see what ... what it is they're talking about, can we assist in any way or can we not. Secondly, going into a budget ... look ... you're not going to be ... I'm not going to be foolish in front of the Irish public and say it's never a consideration in an election year, now let's just be honest about it and cut the nonsense.

By the same token I believe what we did was responsible and was required and warranted. There were pressures, wage pressures on the economy which were very strong, a very tight labour market situation. But I had made it clear earlier - and I made this point from ... when my budget in '05, if you want to look for consistency in my budget, it was about spreading the benefits of prosperity to as ... to more people. People were seeing a more prosperous Ireland, they were not exactly sure where they were fitting into it. And there were many people, including in whether they'd be in the public system or others, saying, "You can't do that this year, you can't do that, now is not the right time."

And there comes a point where you have to say, as a politician, "What do you want to achieve here, what do you want to do, who are the people you think need to get some of the benefits of this wealth that's being created?" And I was very clear where I stood. I mean if you want my political philosophy it can be reduced to four straightforward rules. Firstly, invest in education, skills and infrastructure to raise productivity to enhance competitiveness and protect prosperity. Secondly, reduce taxes to reward work, promote enterprise and spread the burden fairly across society. Thirdly, increase spending on services to improve the lives of our citizens, and fourthly, follow a prudent budgetary policy characterised by balanced budgets and falling debt burdens so that we can continue to spend on tax policies which will be sustainable over the longer run. That's what I did and it's about rewarding people for their effort, helping working families put more income directly into their pockets, promote social and economic inclusion, support enterprise and risk taking and, as regards tax reforms, increase opportunity for our citizens. Now what happened after that, we know we had to change tack, but that is ... that is ... that is what we were trying to do.

Chairman: I'm going to move on Deputy ... or Mr. Cowen. I just want to stay with the ... just the theme, the general theme there Deputy McGrath was actually with you on, and that's something to do with CBFSAI and how the board was established and how appointments were made. And maybe you might talk in a general way as to how you appointed people to the boards? But maybe you could also specifically talk to us about your appointments to the board of the Central Bank which include, amongst others, Alan Gray who was the CEO of the economic consultancy company, Indecon, Mr. Brian Hillery who was chairman of both Independent News and Media plc, Mr. Dermot O'Brien, former chief economist with NCB Stockbrokers? Maybe you could explain your reasoning to their appointments and what was your underlying rationale in appointments to the board in general?

Mr. Brian Cowen: Well, the appointments were made on the basis of their suitability and competence. I believe all three meet those requirements. I would say to the committee I would know two of them personally, Alan Gray and Brian Hillery. Brian Hillery is a former Member of this House, he is a former professor of industrial relations in UCD. He's a person whom I hold in high regard, has worked on various bodies here on behalf of the State on various issues. So I felt he would be ... his skill-set would be helpful. Alan Gray, as I said, he's a competition economist, he's a guy who's ... a person who I think is internationally recognised, a respected economic consultancy firm. Again, I think he was replacing a German person I think who had served for a good while on the bank and had economic experience. The third man you mentioned, I don't know him personally ... again highly respected in economic circles. Would have been the person who devised the purchasing managers' index which was a means of finding out how things are going in the business world in terms of purchases and what the confidence levels in the economy is ... that may well have been recommended to me from within the Department, I can't recall but I don't know the person personally, but certainly his CV was impressive.

Chairman: And maybe if I could ask you to comment upon then, did you agree with your predecessor's appointments to the board of CBFSAI and the Financial Regulator?

Mr. Brian Cowen: Well I never ... I've never taken ministerial office in any Department, ever interfered in existing boards, whether they were of an Administration of which I was a member, or from a previous Administration of a different political configuration. In fact my record will show that I have reappointed, in some cases, people who are appointed by a predecessor from another party where I believed they were making a good contribution and had something to offer, including in chairmanships.

Chairman: So in response to the earlier question with the appointment you had a familiarity with some of them and less of a familiarity with the others but it was based upon expertise rather than position and so forth. This brings me back to the question that Deputy McGrath was asking you, which was the sort of paradox that was taking place in the financial stability reports coming out of the Central Bank, and it wasn't just Mr. Patterson, I think, Mr. Neary, and others spoke about how the financial stability report was not the exact reflection and depiction of what was actually happening, and the word "spooking the horses" was raised, I think with Mr. Patterson and Mr. Neary. I think Mr. Neary actually coined the phrase as well, when he was inside here. And given your familiarity with the personalities that you had appointed to this board, were you aware of that paradox?

Mr. Brian Cowen: No, I have never ... I have never been ... that has never been intimated to me. When I make appointments to boards, I let people get on with it, I don't expect them to come back and tell me what's the minutes of last month's meeting, you know, that's not the way I operate. You appoint people, you entrust them with a position of responsibility because of their experience and their track record, and you expect them to contribute in the collective authority that they're involved in without reference back to me, otherwise what's the point in appointing them? So, you know, I believe, you deal with the Central Bank through Mr. Hurley, I didn't deal with them through other board members.

Chairman: That paradox came to the attention of this committee in its recent hearings, following a line of questioning. Was that your first time hearing about that paradox or were you aware of it before the public hearings of this inquiry?

Mr. Brian Cowen: I wouldn't be aware of that, as I say, as I said, not at all. I wouldn't be aware of it, and I think the person about whom it's been made needs the opportunity to respond, to see if there's any truth to it. I mean, sometimes people say things like that ... on reflection, may not be quite as accurate as ... from someone else's perspective.

Chairman: Thank you. Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat a Chathoirligh. Fáilte roimh an tUasal Cowen. Volume 3, page 46, just of the core booklets. Mr. Cowen, the banking inquiry has received documents, and they'll come up on the screen in a minute, that shows draft OECD reports on Ireland's macroeconomic development and these were revised or partly re-worded by the Department of Finance. Can I ask you a couple of questions in relation to that? Particularly, do you know if this was an arrangement that was also followed with other external organisations such as the IMF and were you aware that the Department were amending and re-wording portions? And we can see that's just one page of it that's up on the screen now ... for example, there's looking for a deletion of property-related receipts "and their greater importance than in the past" and the fact that this creates risks in the short and long term, words like "boom", "property boom" and stuff like that there. Were you aware that this was happening and was this an arrangement that was happening with other organisations as well?

Mr. Brian Cowen: No, I wouldn't be aware of that. I do know that these international peer review groups have a *modus operandi* when they come here, they come with their team of people, they meet various bodies and Departments and inside, you know, private sector participants, public sector people. At the end of the day, I'm not aware of what the circumstances here are; it may well be that they are looking for inputs from the Department, sending on a draft, draft coming back from the Department as to what they think should be in it or shouldn't be in it-----

Deputy Pearse Doherty: And the Minister was not consulted, in relation-----

Mr. Brian Cowen: No.

Deputy Pearse Doherty: Okay. And do you know if this was an arrangement with other external organisations outside the OECD?

Mr. Brian Cowen: No, as I say, my understanding of this interaction is about the Department of Finance giving their views on drafts that may be prepared by the relevant organisation itself, and at the end of the day, the final report is in the ownership of the IMF, if they can accept or not accept any suggestions from elsewhere.

Deputy Pearse Doherty: And are you satisfied by the independence of the research carried out by these organisations?

Mr. Brian Cowen: Yes I am, I think they're internationally reputed.

Deputy Pearse Doherty: Okay. Mr. Cowen, on page 12, and maybe we can pull it up, of your opening statement, you list eight key factors that you believe were relevant regarding the mistakes made in the lead-up to the banking crisis, and one of those, the second point in that, is that you believed that banks became too dependent on wholesale funding. Do you believe that your policies contributed to the banks becoming too dependent on wholesale funding?

Mr. Brian Cowen: No, in fact I think that if you look at what's happening in banking for the past 25 years, this question of wholesale funding is becoming a bigger factor in how banks fund themselves than would be the case in the past, and the reason is that there's competition for the deposits that they used to have almost to themselves. And because of this financial innovation, and other funds, other opportunities for people to get higher yield than very low interest rates at deposits in banks, banks are having to find other sources for their funds in order to do their loans.

Deputy Pearse Doherty: Did you facilitate that, did you facilitate the fact that they were more dependent? And can I ask you in particular-----

Mr. Brian Cowen: No. Sorry ...

Deputy Pearse Doherty: You didn't, okay. But is it not the case, Mr. Cowen, that as a result of substantial lobbying by Irish banks, you brought in legislation which facilitated this over-dependence on wholesale funding? And what I'm referring to here, Mr. Cowen, is the 2007 amendment to the Asset Covered Securities Act which was lobbied by institutions such as Bank of Ireland, Depfa, Anglo Irish Bank, and which allowed Anglo Irish Bank, a commercial property lender, to access new sources of borrowings to fund the bank. And we have letters in the public domain from David Drumm to yourself, Brian Goggin in terms of the dinner that you'd had, that lobbied for this legislation.

Mr. Brian Cowen: No, that wasn't the basis on which this happened. I mean, we brought forward legislation ... I can't recall the detail of it now, I don't have it in front of me, but ... it was always about trying to ensure the widest possible market access to funds by Irish banks - that's a good thing. One of the problems is that, when the international liquidity crisis hit, it hit every category of fund and therefore, whereas if you had a diverse source of funding mechanisms and one or two get into trouble, you can compensate by having access to other funds. So the, any financial legislation that we introduced was, as we believed it to be in the public interest to have the maximum number of liquidity channels available to Irish banks as possible. And that stood on its own merits, nothing to do with, it had nothing to do, Chairman, with a dinner here or something else there, that's just-----

Deputy Pearse Doherty: No it's to do with the legislation, we're trying to-----

Mr. Brian Cowen: It's nothing to do with Mr. Goggin and me having a dinner, that's what I'm saying.

Deputy Pearse Doherty: No - well, no, sorry-----

Mr. Brian Cowen: It's become very McCarthyite around here, if you talk to someone now you're-----

Deputy Pearse Doherty: The point I'm making is that they lobbied heavily for this because they wanted access to a wholesale market and using different products-----

Mr. Brian Cowen: And that might be a legitimate-----

Deputy Pearse Doherty: Can I just finish on this here, that's the point I'm making. When you say that one of the eight mistakes that were made was that banks became dependent on wholesale funding, how could it, is not, is the Asset Covered Securities Act not an instrument that allows them to depend further on wholesale funding by wrapping up mortgages and having them sold on the market?

Mr. Brian Cowen: What I'm saying is, and I'm sorry, Deputy, for interrupting you, what I'm saying is that the nature of banking worldwide is being facilitated by more wholesale funding, because the traditional way of getting sufficient funds, through deposits, which they had in the old days, post-Depression up to the 1970s, is no longer the cartel and inefficient one it was, so that people who are savers are getting better opportunities to get a return on their money than was the case when banks were the sole repositories of your deposits. So, that means banks, to continue to be the economic actors that they are, have to fund money elsewhere. The reason why we would bring forward legislation is that it's in the interests of a small, open Irish economy, which has a requirement for capital that we have because of the success of our economic policies over the previous ten years, we need to make sure that we can continue to have access to capital.

Deputy Pearse Doherty: Can I ask the original question that I asked again, given the conversation we're just after having and given the fact that you introduced this legislation that allowed the banks to access wholesale funding through this measure in 2007, do you believe that your policy and your legislation you introduced in 2007, increased the ... allowed the banks to increase their dependency on wholesale funding, given that we know that Anglo Irish Bank and a number of other banks used this instrument in the preceding months after the legislation became law?

Mr. Brian Cowen: To answer your question, it was another source of wholesale funding, and there's nothing wrong with that. But the problem was, it wasn't the fact that there was another source of wholesale funding, the problem was that there was no liquidity in that market or any other money market, which brought about the global financial crisis. So whether it was that, or you hadn't enough deposits, or you hadn't enough, you know ... the problem was the liquidity situation affected all products and you know, the fact that there was a wholesale funding problem in that respect is neither here nor there, the problem was you couldn't get money anywhere.

Deputy Pearse Doherty: Well, okay, if it's neither here nor there-----

Mr. Brian Cowen: Assets, in assets-----

Deputy Pearse Doherty: Okay, because the reason I'm asking ... saying it, is it's one of the eight points that you've raised as the mistakes. But I need to move on because of the time constraints. And now we'll go to Vol. 3, page 28, and this is in relation to property tax incentives, and in ... it'll come up on the screen, Vol. 3, page 28. What we see in this here, it's a review of the exemptions, and we have it from, I think it's from Indecon, I think, is it, that comes up first? And the question, it's in the second line, the line is: "By the end", second paragraph, sorry, "By the end of July 2006, when the Schemes are due to expire", right. Just stop there. Now, "By the end of July 2006, when the Schemes are due to expire", this is the review of property tax reliefs which was carried out in November 2005. Do you accept that the schemes were due to expire in July 2006, first of all?

Mr. Brian Cowen: Yes, they were due to expire then in July based on the previous decision by my predecessor.

Deputy Pearse Doherty: Okay. So, if you did nothing - and you claim to have abolished these property tax reliefs - if you did nothing, do you accept that these schemes would have gone anyway?

Mr. Brian Cowen: Yes, at what dislocation would it cost and at what ... if everyone was trying to meet this arbitrary deadline, just at that July, the amount of people coming in, the costs of funds, the costs of capital, the costs of the jobs, you know, people would be trying, if there was any tax-driven element to this, would be trying to reach that. If you look at, you know, the people who wrote that half sentence also wrote recommendations down the bottom of that page which tell you how they believe an orderly wind-down of the scheme should take place.

Deputy Pearse Doherty: I understand that. But I just want ... because you're making the point that one of your main four elements was that you abolished the tax reliefs but you're acknowledging that these were going to abolish themselves in July 2006.

Mr. Brian Cowen: Subject to some transitional arrangement, if you wanted an orderly wind-down.

Deputy Pearse Doherty: And do you accept that you extended these schemes from the end of July 2006 to end of December 2006? And I'll quote just from the Finance Bill 2006, list of items, it says: "Full relief will be allowed for qualifying expenditure up to end of December 2006, as compared with the end of July 2006 deadline that currently applies for several of these schemes." Do you-----

Mr. Brian Cowen: Yes, we gave that extension for those that would have been finished on that date that year, yes.

Deputy Pearse Doherty: And do you accept that for these same schemes that were going to abolish themselves in July 2006, that you extended them to ... some of them to end July 2008 with additional conditions, if additional conditions were to be made?

Mr. Brian Cowen: No, there was transitional genuine pipeline projects which, if you didn't make account for them, people could go to court and sue you and sue the taxpayer for not allowing for the reasonable foreseeability rule. There is a reason why we did it that way and it's a totally legitimate reason.

Deputy Pearse Doherty: I'm not questioning your reason-----

Mr. Brian Cowen: But the point that you're making is-----

Deputy Pearse Doherty: I'm not questioning your reason. I'm asking you do you accept the fact that you allowed transitional arrangements of these schemes-----

Mr. Brian Cowen: Yes, yes-----

Deputy Pearse Doherty: -----which weren't in place up to the end of July? Okay, so I just wanted to clarify that.

Mr. Brian Cowen: But there were some other ones which continued, based on the review that was done.

Deputy Pearse Doherty: So that's one of the four main points that you believe the Government took to try and dampen the property price rise that was happening at the time. The second one was in relation to the 150% capital on investment products. Did you have any input or your Government have any input into the-----

Mr. Brian Cowen: I agreed with it when it was done but I said, unfortunately, it wasn't done sooner but since there are defects in the regulatory authority that are trying to be ascribed to me, I might as well say, if there is a successful intervention, we're entitled to say that we supported it.

Deputy Pearse Doherty: So it was nothing with Government, bar you supporting it?

Mr. Brian Cowen: No, no, no.

Deputy Pearse Doherty: Okay. So, that's the second key area that you identified. The third key area you identified was not spending or continuing to put a 1% of GNP into the National Pensions Reserve Fund. Given the fact that this was statutorily required under section 18 of the National Pensions Reserve Fund since the year 2000, how could this be a measure that would actually try and deflate the increase in property prices during that period or-----

Mr. Brian Cowen: Because it stopped the spend in the economy that would have otherwise happened, if it weren't diverted. One of the biggest problems you'll have, if you ever get ... you know, if people ever have positions of responsibility, the one thing that's as bad as having a budget deficit is having a budget surplus and the fact of the matter is that that 1% diversion into the national pension fund, which grew to about €34 billion by the end of its term before the recent catastrophe, that that was money which could well have been spent elsewhere and in other ways without the same effect.

Deputy Pearse Doherty: But, Mr. Cowen, this wasn't like ... this wasn't a measure. So, when property prices started to increase dramatically, this wasn't a sudden measure that you took to deal with-----

Mr. Brian Cowen: I didn't say it was.

Deputy Pearse Doherty: Well, just-----

Mr. Brian Cowen: I said it was a continuation of our policy when, at the time, people in the Opposition were telling us it is time not to divert that money away, you should be investing that money in Ireland, you should be investing that in capital projects-----

Deputy Pearse Doherty: Okay. Well, based on the four-----

Mr. Brian Cowen: -----which would have added to the spend.

Deputy Pearse Doherty: Based on the four points which you say you are being accused, your Government is being accused of doing nothing to deal with the risks, one we know is that the abolition of property tax reliefs were going to be abolished anyway in July 2006,-----

Mr. Brian Cowen: No, no.

Deputy Pearse Doherty: -----let me finish - and you extended them under transitional arrangements. The other one is that you did not spend the National Pensions Reserve Fund, which was the policy since 2000. The other one is that you did not reduce stamp duty, although you did reduce stamp duty for first-time buyers during that period.

Mr. Brian Cowen: That's correct.

Deputy Pearse Doherty: And the other one is that the regulator introduced something that your Government had no hand or part in, bar that you supported it. Can I ask you what did you personally do, as Minister for Finance, instead of, "We didn't do this", as in, "We didn't spend the national pension fund"? What did you personally do when you seen an explosion of credit in the financial markets and a massive increase in house prices? What did you do in terms of trying to curtail the property bubble that many believe developed during your reign as Minister for Finance?

Mr. Brian Cowen: The property bubble ... I mean to make the point that if you're saying why didn't I intervene... that would raise unemployment, reduce economic growth, allow for what was there already to continue and take ... put a brakes on, I wasn't prepared to do that.

Deputy Pearse Doherty: Nobody asked you that question.

Mr. Brian Cowen: I know you didn't-----

Deputy Pearse Doherty: I'm asking a direct question-----

Mr. Brian Cowen: You're suggesting that there's an easy alternative to it. There isn't.

Deputy Pearse Doherty: No, I have not, with respect-----

Mr. Brian Cowen: Sorry, I'm going to answer your question but you're interrupting me now. I'm listening to you.

Chairman: Deputy Doherty, I need to allow Mr. Cowen to respond. Mr. Cowen, please, you've got the floor.

Deputy Pearse Doherty: Well, answer that's fair enough .... no problem.

Chairman: Through the Chair, gentlemen, please.

Mr. Brian Cowen: Now, in relation to the issues you raised. There were ... everyone was asking me to reduce stamp duty. I did, as you say, have targeted initiatives for first-time buyers; that was a consistent position I had. The Opposition, who were now saying we're spending too much, said they were going to reduce it for everybody.

Chairman: Can I ask you to focus upon your actions, not the Opposition's or anybody else's?

Mr. Brian Cowen: Well, what he's asking me why I'm taking credit for not reducing stamp duty.

Deputy Pearse Doherty: No, no, the question is, as Minister for Finance, what did you do to stop an explosion of credit in the markets and an increase ... a rapid increase in house prices when you were Minister for Finance, as opposed to what you didn't do?

Mr. Brian Cowen: Well, let me explain to you that the independent regulatory authority had the statutory power if they felt it necessary to intervene in relation to lending growth. I didn't have that statutory power. That's an independent regulatory power and I'm simply saying I welcome the fact that when they did introduce it, it was introduced and I'm sorry it wasn't introduced sooner. But I didn't have that power. That's the whole idea of having an independent regulatory function.

The second point I'm making to you is that we didn't move on stamp duty as I was being asked to do.

The third point I'm making to you is that I did abolish the property tax incentives. I did arrange for an orderly wind-down of them because if I didn't, there was a prospect of people pushing to do whatever work was left to be done by what was an arbitrary timeline, instead of just having it ease out in a way that wouldn't have unforeseen consequences. That's ... and that's a transitional arrangement that ... without which, it would well have ended up in a different situation and a worse situation. So ... and the fact is that some of them based on the comprehensive review that was done were continued because they were fulfilling economic and social objectives, which were socially and economically desirable. So that's the point in relation to that one.

In relation to the question of supply, clearly it was a question of how quickly could we get the supply side to meet the demand. That was done by 2006 and then we saw a reduction taking place in 2007 and 2008. And, you know, in a market economy, the only other thing that I could do, if you're saying what should I do, now that we see no lending growth at the moment ... or then and the economy crashing, was for me to decide, "I'm going to put the brakes on and say we're not going to ... we're going to cut back and say this far and no further." Against a background of long-term economic growth and all of the activity that was behind that, I didn't believe that was the right to do. The right thing to do was to deal with the competitiveness issues in a different way, which was to boost product capacity and by boosting capacity and having more public capital going into our road systems and everything else, we were going to make sure that the question of the housing situation would become a better outcome quicker than if we allowed the situation without a public capital programme to take place.

Deputy Pearse Doherty: Listening to you, Mr. Cowen, and finally-----

Chairman: I need you to wrap up now, Deputy.

Deputy Pearse Doherty: Listen, Mr. Cowen, I need to ask you this question: do you believe that your policies, as your time as Minister for Finance, helped to develop and sustain a property bubble in this country?

Mr. Brian Cowen: It didn't set out to sustain and develop a property bubble; it set out to ensure that we could ease the bubble back on a soft landing projection, as was being suggested would happen. When you have a ... and that's the way it was going in 2007 and 2008 and would possibly have went in 2009 in that way on the basis that you were taking the heat out of the price. But what happened then was that the international crisis hit, access to funds and borrowings evaporated and so, therefore, the vehicle that was allowing you to move the house price situations were more normalised price level was taken from you----

Deputy Pearse Doherty: But did your policies help develop it, that's the question?

Chairman: Deputy, we're moving on.

Deputy Pearse Doherty: Did your policies help develop the property bubble?

Chairman: Deputy, we're moving on.

Mr. Brian Cowen: No, our policies were not designed to create a property bubble. Our policies----

Deputy Pearse Doherty: Whether they were designed or not, did they?

Chairman: We'll be back in this afternoon on this, Deputy.

Mr. Brian Cowen: I have said earlier - there's no problem, Chairman. I've said earlier that the property bubble, the over-valuation happened during my time as Minister. I've no problem saying that because the ESRI have said it. But, so, that's a fact. Now whether it started in 1997 and ended up with my time, it doesn't matter. I'm not trying to move away from that. What I'm trying to suggest is that there was a projection from 2007-08 on which was suggesting that we had reached the height of that cycle and that we were basically moving towards gradual reductions in a way that would have to be accommodated by policy because of the reduced revenue that would come in as a result.

Deputy Pearse Doherty: With respect, Mr. Cowen, you are not answering the question.

Chairman: I-----

Mr. Brian Cowen: No, I have answered it-----

Deputy Pearse Doherty: No you're not answering the question.

Mr. Brian Cowen: I have answered it-----

Chairman: Mr. Cowen-----

Deputy Pearse Doherty: You've acknowledged a property bubble but you are not answering the question as to whether your policies contributed to it or not-----

Mr. Brian Cowen: I don't believe ... I don't believe that my policies-----

Chairman: Sorry, gentlemen. Excuse me, Mr. Cowen, and excuse me, Deputy Doherty, please. You can cry all about your lunch and you're getting cranky but we need to get through the day's work we have to do. I just need to deal with one thing. You were talking there earlier about the liquidity issue - and then I'm going to bring in Senator O'Keeffe - and you were saying that liquidity had a relationship to the difficulties that were being caused, Mr. Cowen. However, in that regard, would you consider or accept that Irish banks were, to a much larger extent, dependent upon wholesale funding than banks in other European countries? And were you aware as the Minister for Finance or was Government aware that Irish banks had funded the main part of their credit growth through fund markets?

Mr. Brian Cowen: Yes, well, the situation is that there was a higher percentage of it all right in Ireland than compared to Europe where there was a far more settled housing market where the demographics were a generation ahead of us. The demand that we were having was because we're a generation behind, demographically speaking, to Europe. And so, therefore, what you saw in Holland and elsewhere in the '70s and '80s is something that you're seeing in Ireland today because of the demand that there was for housing at the time. But the point ... the simple point I am making is that, you know, not since the 1920s have we had a liquidity crisis like we saw in 2008. Not since after the Depression have we seen a liquidity crisis of that type and that there were pools ... huge pools of liquidity looking for places to go, if you like. Cash looking ... capital looking for somewhere to go and we were a growing economy, we were an open internationalised economy, we had a banking system that was able to source those revenues and credit rating agencies put them at the very top of their rating charts. So, you know, we are not a country that has our own natural wealth like older states who built up wealth in other ways in the past. We were a young, relatively young, growing economy which had modernised from the 1960s on, which had now had seemed to be in a virtual ... a virtual cycle of high employment, higher wages ... spreading of that wealth to more people, a fairer tax system-----

Chairman: Just answer the question, Mr. Cowen, please-----

Mr. Brian Cowen: I'm ... I'm answering your question you're asking me, you know, let me answer it and I'll answer it. I've no problem answering it. I'm just trying to say to you that-----

Chairman: There's just two parts to it. Be aware of that.

Mr. Brian Cowen: -----the nature of capital formation in Ireland was that we needed to get access to capital. We don't have the same level of indigenous capital in our society as others have-----

Chairman: I'll ... I try not to push people to "Yes" or "No" questions but maybe if you can just summarise what ... where we are in this. Do you accept that Irish banks had ... were, to a much larger extent, dependent on wholesale funding and was the Government aware of this?

Mr. Brian Cowen: I said yes ... yes to that twice.

Chairman: Okay, thank you very much. Okay, Deputy Eoghan Murphy.

Deputy Eoghan Murphy: It's Senator O'Keeffe.

Chairman: Apologies.

Senator Susan O'Keeffe: The wish for lunch grows.

Chairman: It does indeed.

Senator Susan O'Keeffe: Mr. Cowen, Vol. 2, page 7. I know you have seen this graph before today, I think. The annual budget settlements announced in December '04, '05 and '06 implemented a significantly more expansionary fiscal policy than was recommended by the Central Bank in its pre-budget letters each year. Can you explain why Government chose to ignore the consistent advice of the Central Bank?

Mr. Brian Cowen: Because it identified policy initiatives which it wished to pursue and believed it had sufficient room to manoeuvrer to do it and felt that the evidence was suggesting that we had sufficient room to manoeuvre to do it since the outcome in terms of the revenues we were raising in the following year was greater than what was budgeted for.

Senator Susan O'Keeffe: When you would choose, say, for example, the first in 2004 and if you wouldn't ... if you would ignore it in 2004 and again ... did it become a thing where you would look at it and go, ''Well, that's helpful but not really useful?" I mean, what was going through your head when you were looking at their advice?

Mr. Brian Cowen: Well, you know, I'd take account of advice. I mean, there are central banks, for example, the Fed in America, who make no comment on fiscal policy whatever and don't see it as their role. But, I mean, in a small country like ours, if people want to make a view on fiscal policy, that's fine. But, at the end of the day, Government makes the decisions and we, as I have said, we had sought to marry ambition with responsibility. We had serious issues to deal with as a result of, thankfully, for the first time maybe in a long ... perhaps since the foundation of the State, a growing population ... many needs, expectations having risen, service gaps identified and the need to address them and the need-----

Senator Susan O'Keeffe: So you wouldn't give extra weight to the advice given by the Central Bank given their particular expertise?

Mr. Brian Cowen: Yes, but when you ... when I look at the pre-budget letters and I look at, you know, the various balanced statements that they make and I read them out to myself, I ... they are broadly ... they are broadly positive. I mean, you know, I don't see anywhere there that they say, ''You better not do what you have in mind to do.'' I mean we were growing at 4.5% to 5%, in one case 6.5%, inflation was 2.4%, 2.5%, slightly higher than the EU-----

Senator Susan O'Keeffe: Because I'm looking at the graph, I suppose. I'm looking at the graph saying, well the budget packages if you like, it's a very clear-----

Mr. Brian Cowen: Yes-----

Senator Susan O'Keeffe: -----blue line and a red line. The blue is the recommendation and the red is what happened.

Mr. Brian Cowen: Yes, no, the blue is ... the blue is actually the ... is the Department of Finance's original package. Maybe €1,500 a year between increase in spend in tax and expenditure ... and spending. Now, what I'm saying to you is the policy decision we made was that allocation was not sufficient to meet the identified needs of our people.

Senator Susan O'Keeffe: Well, in the Nyberg report, on page 60, it says, ''it is safe to say that vigilant authorities should have been much more concerned by the end of 2005'', and then it goes on:

> By the end of 2005, on a reasonable assessment, the authorities should have been sufficiently concerned about the emergence of a property bubble to consider aggressive action to deflate it: new house prices had increased by 40% since 2002; property-related lending in relation to GDP was double that of the UK ... and proportionate to population, house completions were six times higher in Ireland than in the UK. 12% of the Irish working population was employed in construction and construction output accounted for 20% of Ireland's GDP.

Notwithstanding what you have said about the concerns about needing to keep people in employment and so on, their assessment ... this assessment is that by the end of 2005, vigilant authorities should have done more and should have been more concerned. Were you ... were you concerned at all?

Mr. Brian Cowen: Well, those concerns were raised and then in 2006, those concerns - it was deemed by the Central Bank - had receded. So they ... there was a concern that was heightened in 2005. You go to the next year and look at the reports, they say that that has receded somewhat. So-----

Senator Susan O'Keeffe: Somewhat-----

Mr. Brian Cowen: Well, receded. Not to the point, thankfully, of the whole thing falling down with nothing. I don't regard that as-----

Senator Susan O'Keeffe: So you ... you took comfort that they'd receded sufficiently for you to-----

Mr. Brian Cowen: Well, that was what the Central Bank Governor was telling me in his letter, which is what you are referring to.

Senator Susan O'Keeffe: Yes, okay. So you took comfort from that?

Mr. Brian Cowen: Of course.

Senator Susan O'Keeffe: Okay.

Mr. Brian Cowen: It was a less ... less ... it was less of a risk in 2006, clearly, than it was in 2005.

Senator Susan O'Keeffe: So despite the fact that borrowing continued to rise and houses ... house construction continued to rise, you still were sufficiently reassured by the small change in 2006 to ... would you not do anything more specific?

Mr. Brian Cowen: I'm reading ... I'm reading from the broad ... I'm reading from what the ... what the Governor has had to say. He says, ''To conclude, the public finances ...'', this is 2006:

> To conclude, the public finances are in a very healthy position, with another general Government surplus in prospect this year, coupled with the second lowest debt the GDP ratio in the euro area. Following the slowdown in 2001-2002, the economy has recovered strongly and has grown at a more sustainable level over the last few years. The fact that unemployment has remained about at 4.5% is testimony to the success of the economy and the Government's management of the public finances.

Senator Susan O'Keeffe: When you came into the job as Minister for Finance, did the Taoiseach say that he expected anything in particular of you or that he wanted you to do anything in particular? Do you remember? Maybe he didn't say anything.

Mr. Brian Cowen: Cabinet meets every week and priorities are set out there and political discussions, as you know, at party level are confidential.

Senator Susan O'Keeffe: Yes. I wasn't asking about the Cabinet, I was actually asking you about what the Taoiseach might have said to you, as one party colleague to another, on appointing you as Minister for Finance, ''This is what I hope would happen.'' No? That didn't happen?

Mr. Brian Cowen: Obviously, you know the discussion would be, I mean ... the discussion from the start ... first of all the fact that he was proposing confidence in me to do that job was ... was well received by me. Secondly, I knew what our priorities were. We shared a view on broadening the prosperity to the greatest extent we could and achieving social as well as economic objectives was an important part of our philosophy.

Senator Susan O'Keeffe: Would you say that in this period of time that we're discussing today, as opposed to any later time, did you have friends or close acquaintances in the banking sector or in the property sector?

Mr. Brian Cowen: No.

Senator Susan O'Keeffe: And, if so, who were they?

Mr. Brian Cowen: I don't have acquaintances or closer friends, no. I don't have ... it's not ... my acquaintances and close friends are quite mundane, not well-known.

Senator Susan O'Keeffe: Okay. So how then would you describe your relationship with Fintan Drury who, obviously, was a non-executive director of Anglo Irish and I know you'd known him prior, you'd known him, I think, I believe, at college, you probably can tell me-----

Mr. Brian Cowen: Yes.

Senator Susan O'Keeffe: -----if that's the case?

Mr. Brian Cowen: Yes.

Senator Susan O'Keeffe: So you knew him for a while. But he became a non-executive director at Anglo, among other things that he did. So how would you describe your relationship with him?

Mr. Brian Cowen: He's been friendship ... he's a friend of mine for the guts of 20 years. But I've never discussed his business with me in relation to Anglo Irish Bank. He was also involved as a Paddy Power, I've never discussed Paddy Power, because he make an ... he make it clear that that was ... these were not issues that he would discuss with me. If there were people in those organisations that wanted to discuss anything with the Department or me on these issues, it wouldn't be him.

Senator Susan O'Keeffe: So in your diaries for 2005 and 2006, it does show that Mr. Drury was visiting you in your offices quite a lot, and, obviously, they're your official diaries. So he would have been coming in to talk about anything, in particular, or just as friends?

Mr. Brian Cowen: General things. I mean, he was a guy who I had worked with for a long time since I became a Minister. He had, as you know, form ... or expertise in PR, apart from his own business subsequently, so he's a person who was interested in public affairs. We had good chats. But, as I say, never inappropriate discussions about Government business that would be best left with Government. I didn't ... I never did that.

Senator Susan O'Keeffe: You never talked about banking, you never talked about Anglo Irish? I'm just being clear.

Mr. Brian Cowen: No, I don't believe ... I mean, no, I can't say you never discussed about a bank issue of some description, but no, I didn't discuss banking.

Senator Susan O'Keeffe: Do you think that it was appropriate that he had that much access, or was that okay because he was a friend?

Mr. Brian Cowen: Well, as I say, I mean, I meet very many people. In politics you meet an awful lot of people, and, you know, if we're going to have a situation where contact is meant to think that there's something wrong or something, there's nothing wrong with that, nothing inappropriate, nothing that in any way compromises my public affairs or public interest issues.

Mr. Brian Cowen: I can find no entry for Patrick Neary, for example, having come, and he may have done, but there's no entry in the diaries in that period of time. Would you have met Mr. Neary on an organised basis as opposed to at an event hosted by someone else?

Mr. Brian Cowen: No, when I had the meetings with Mr. Patterson, I think, he used ... Mr. O'Reilly used to come, because he would maybe more expertise in whatever area he wanted to discuss with me, but I didn't talk to Mr. Neary very much, you know.

Senator Susan O'Keeffe: Finally if I may, to go back to the Asset Covered-----

Chairman: Senator, now.

Senator Susan O'Keeffe: -----Securities Act that was raised by Deputy Doherty in relation to you. I mean, under the freedom of information, and various parts of the lobbying that occurred at the time, even one of the officials in your own Department wrote back to the Irish Banking Federation and said, "The IBF is certainly an effective lobby co-ordinator. We are under siege from reps from banks about slippages in the ACS time path." And, of course, part of the reason why it had been delayed, that particular piece of legislation, was that there was opposition from the Financial Regulator to giving ... and to making that legislation pass in the form it, ultimately, was passed in. And, indeed, the Taoiseach also wrote to you in October 2006, asking when were you going to get the legislation through, and, finally, it was introduced in 2007. So it would appear from all of the freedom of information that there was a very long list of people who wrote to you, and who wanted that legislation and when it was introduced by you, it was introduced-----

Chairman: Question now, Senator.

Senator Susan O'Keeffe: -----in the form that they had lobbied for?

Mr. Brian Cowen: No, all I would say to you about that is, in relation to any details, I would take official advice on that. I mean, if they were being ... if representations was being made by the IBF or whatever, you know, the Department of Finance officials who were dealing with the issue would come to me and say, "Here's what we think should happen." And then I'd go with that. I didn't ... I don't think I ever responded to any representations I had received without taking official advice.

Senator Susan O'Keeffe: So but the Financial Regulator was-----

Chairman: Supplementary now, Senator.

Senator Susan O'Keeffe: -----in part opposed to what had been lobbied for, and is it a coincidence then that the legislation that you introduced matched exactly what you'd been lobbied for?

Mr. Brian Cowen: Well, I'm sure it's ... I'm not saying it's a coincidence, but I'm saying that I wasn't-----

Senator Susan O'Keeffe: No, I asked you was it. I wasn't saying what you said.

Mr. Brian Cowen: -----I wasn't ... I know that, but I'm just making the point that, you know, these representations being made about prospective legislation comes into the Department, is assessed, the Department then come to me with proposals which may be consonant with what what the representation is, they see it, is legitimate, or otherwise. And they would tell me what the story is. And I'd say, "Okay, if you're happy with that, let's go with that", because they're the people who are doing the consulting, consultation, not me.

Senator Susan O'Keeffe: Sure, even if the-----

Chairman: Wrap it up, Senator, now.

Senator Susan O'Keeffe: This is the last. Even if the Financial Regulator appears to be opposed to it?

Mr. Brian Cowen: Well, obviously they take that into account, and again it's best ... I can't help you any further with that. It's best put it to the official in question as to how that interaction took place. But certainly not an interaction with me. And I didn't direct the Financial Regulator to step back from his position, whatever it was.

Senator Susan O'Keeffe: But the Taoiseach wrote to you?

Chairman: It's Deputy Murphy.

Mr. Brian Cowen: Yes, it's the Taoiseach ... it's not unusual that the Taoiseach of the day would write to you about some of this stuff, because the Clearing House Group was chaired by the Department of the Taoiseach, and that, as you know, is another consultative panel that operates in relation to keeping financial services to the forefront in international terms.

Senator Susan O'Keeffe: -----different industry representatives, isn't it?

Chairman: Senator, I do have to move on now.

Mr. Brian Cowen: Yes, and Department representatives and everyone else. It's a consultation process.

Chairman: Thank you, Mr. Cowen.

Senator Susan O'Keeffe: Thanks.

Chairman: Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chairman. Thank you, Mr. Cowen. You're very welcome. I just want to continue on that line of questioning, if I may. When you made that decision at the end of 2006, beginning of 2007, did you know you were making it against the advice of the Financial Regulator?

Mr. Brian Cowen: I can't recall, to be honest.

Deputy Eoghan Murphy: Okay. Would it be usual practice for you or your Department to act against the advice of the Financial Regulator?

Mr. Brian Cowen: It wouldn't be usual or unusual. It's every, every ... on a case-by-case basis, you'd find out what's the merit of the argument that's being made and, you know, I genuinely can't give you the details. I haven't done my homework on that one, I'm afraid.

Deputy Eoghan Murphy: Okay. Would you often act against the advice of the Revenue Commissioner?

Mr. Brian Cowen: Sometimes did, yes.

Deputy Eoghan Murphy: Okay. Because, in 2006, the Revenue Commissioners wanted to introduce stamp duty for contracts for difference, and you were lobbied again quite extensively to not introduce that stamp duty tax, and you didn't.

Mr. Brian Cowen: I wasn't lobbied personally about it. It may have been lobbied ... there may have been lobbies going into the Department about it, but what actually happened was that related to ... I'm just looking for some contracts ... that related to an issue that, yes, the Revenue were talking about doing something on this lines, and then the Stock Exchange ... it's the reply to a parliamentary question which sets all this out to Deputy Burton and someone else. But basically it sets out that there were representations from the Irish Stock Exchange and others who explained what the problem with that would be, and it was decided that those representations made sense. And we ... there was a review, I think, subsequently by the Revenue Commissioners, they withdrew it at the time and came up with some other solution subsequently.

Deputy Eoghan Murphy: In those two instances, do you think it was a mistake to have ignored the advice you were getting, both from the Financial Regulator and then from the Revenue Commissioners?

Mr. Brian Cowen: No, I don't believe, no, I mean, they're ... most of the ... in many cases, you'd be in agreement with them, you know, if they come with a recommendation. If you have a finance Bill being prepared and Revenue are coming with, "We have ideas on this, that and the other," and if you feel it's in order, or it makes sense, or it's a better collection method, or a better way of making sure revenue is obtained, you go with it. In relation to this one, the officials of my Department came to me saying, "Look, there's an issue here. We've heard from the Stock Exchange; we've heard from others; we think maybe the Revenue haven't got this right as it's presently envisaged to do. It's a quite complicated financial issue." And the Revenue Commissioners then say, "Okay, we'll withdraw that and come back to you based on what we're now hearing from the Stock Exchange." So they would make ... have an initiative to do something, and when people who are affected by it say, "Well, do you realise that this is a consequence of what you're doing?", which they may not have foreseen, then they, someone says, "Okay, we'll modify our position having examined it again."

Deputy Eoghan Murphy: Okay. And just to clarify then, just based on what I think you just said. In most cases you would go with the advice, be it from the Financial Regulator or the Revenue Commissioners or whoever?

Mr. Brian Cowen: Well, no, if it's sensible.

Deputy Eoghan Murphy: So these two cases would be exceptions?

Mr. Brian Cowen: If I feel ... if the Revenue Commissioners came with something that I felt was too intrusive or, you know-----

Deputy Eoghan Murphy: But would these-----

Mr. Brian Cowen: Sometimes they can be over-zealous. You know, you use your judgment to say, "Well, maybe, do it this way rather than that way", but in the main, where it's reasonable and it makes ... it's in the public interest, no problem.

Deputy Eoghan Murphy: So these would stand as exceptions then, do you think?

Mr. Brian Cowen: I'm not saying they're not ... they're the only ones, I'm sure there might be others, but, I'm just giving you the explanation on the list of these ones as I recall them.

Deputy Eoghan Murphy: Thank you. In your opening statement you reference a number of the reports that your Government commissioned into what happened, both in the Department and in the regulator and in the banking system. And, I just want to put a couple of the findings to you because you mentioned some, but you don't mention all, so I wanted to ... just to get an idea of which ones you do agree with. The Wright report, on page 5, outlines three key reasons for fiscal failure and reason two is, "the Government's Budget process was completely overwhelmed by two dominant processes - Programmes for Government and the Social Partnership process". Do you accept that finding?

Mr. Brian Cowen: That's their view, that it was overwhelmed by those two processes. I'm saying we made those policy decisions in the full knowledge of ... and that was a decision for politicians to make, not, however eminent a civil servant might be, you know? So, we make ... we made policy decisions with our eyes wide open.

Deputy Eoghan Murphy: Okay. But do you accept that those two processes, programme for Government, social partnership process, dominated or completely overwhelmed the budget process? And by that, I suppose, we can imply that-----

Mr. Brian Cowen: Well I think they certainly ... they certainly influenced it obviously, because if you bring in a programme for Government, your job as the Government is usually to implement it.

Deputy Eoghan Murphy: In paragraph 82 of your opening statement you said that you believed there would a softer landing for the economy if the unprecedented global financial collapse had not happened. But you say, "but the overvaluation of properties and related vulnerabilities within [the] banks put Ireland in a weaker position when we had to face the global crisis". Did any Government policies on the budgetary or fiscal side put us in a weaker position when we had to face the global crisis?

Mr. Brian Cowen: Of course, I mean, we were ... our Government policies were predicated on a medium-term outlook of 3% or 4% growth in '08, and similar type growth going into the future. I mean, you know, all of ... all of the policies are predicated on certain assumptions. When those assumptions no longer hold you have to adapt and change your policy. That's what we did.

Deputy Eoghan Murphy: Okay. Do you accept the finding of the Nyberg report, on page 4, where it says, "As demonstrated by the previous scoping reports, although clearly affected by external conditions as set out above, the Irish crisis was in all essential aspects home-grown"?

Mr. Brian Cowen: Well, it was ... I think there were certainly domestic factors. But, I mean, to say that ... I don't know what he means by that. Is he saying the Lehman Brothers' thing was ... was irrelevant to how-----

Deputy Eoghan Murphy: He doesn't say it's irrelevant. I think he talks about it being an influence in terms of timing, but ... a trigger, thank you, I think is the word he uses. But the Irish crisis was in all essential aspects home grown.

Mr. Brian Cowen: Well, I think that the trigger, which sort of ... which sort of meant that the liquidity just dried up, clearly, against the background of an economy that was growing for the previous ten years, hit Ireland harder than it did anywhere else. So, it was a trigger. There's no question, I mean, if Ireland-----

Deputy Eoghan Murphy: The trigger of the crisis that was, in all essential aspects, home grown. This is the finding of the commission of investigation.

Mr. Brian Cowen: Yes well, obviously. Obviously the ... the excessive lending by the banks or the irresponsible lending by the banks has to be the primary responsibility for the home-grown crisis, as the Honohan report says. It depends on what report you're picking.

Deputy Eoghan Murphy: Okay. Sorry, we're ... not just banking, as difficult as the banks-----

Mr. Brian Cowen: Not just banking, not just banking.

Deputy Eoghan Murphy: Fiscal ... fiscal decisions as well.

Mr. Brian Cowen: Well, I mean, you know, as I say, I've given the rationale for the contemporary thinking that I did. You're now looking on *ex post facto* analysis. I'm explaining that there was a plausible reason for us pursuing the policies we did. I clearly see now that we have a situation which is totally where we weren't expecting to be. And, if I had knowledge of that, or if there was a ... an ability to recognise that was more likely than unlikely, I would simply be talking to you about a different policy framework now. So, all I can do is give you ... in this ... in this forum ... debate, of why we were thinking what we were thinking. Mr. Wright comes on then and says, well, I think it's a totally home-grown crisis-----

Deputy Eoghan Murphy: Mr. Nyberg.

Mr. Brian Cowen: Sorry, Mr. Nyberg. And that's his view.

Deputy Eoghan Murphy: Mr. Nyberg, after conducting a commission of investigation, I'm mean, let's be fair to the person, he put a lot of work into it.

Mr. Brian Cowen: Yes. Of course he did. I was ... actually, was interviewed by him myself.

Deputy Eoghan Murphy: Now, because there was four points on this, and I think it's important that we establish on the record, again, the findings. Paragraph 75 of your opening statement, you agree with the conclusions of Regling and Watson regarding the banking system, but do you also agree with the report's conclusions regarding fiscal policy? The conclusion of this is on page 25 of their report, "The conclusion is that overall fiscal policies were pro-cyclical during most years up to, and including particularly, 2007 thus adding markedly to the overheating of the economy."

Mr. Brian Cowen: Yes, well the problem I have with that now is ... is that in accepting that, I also have an IMF report that says to me I have a structural surplus of 2.8% as of 2007. So they now have changed that methodology to go back and say now it's a structural deficit of 4% or something. I mean, this is all hindsight stuff.

Deputy Eoghan Murphy: Okay, but the essential points-----

Mr. Brian Cowen: All I can do is ... all I can do is, you know ... I'm not here to interpret what Mr. Wright said or what anyone else said or Mr. Nyberg. I'm here, based on my tenure, to explain to you what was the thinking of the policies that Government pursued. It's a matter for this committee to decide what you want to take out of it.

Deputy Eoghan Murphy: Thank you. I'm not asking for your interpretation, Mr. Cowen. I'm just asking if you accept the findings or not-----

Mr. Brian Cowen: No, you're asking-----

Deputy Eoghan Murphy: Because they're quite clear in the report.

Mr. Brian Cowen: Well, I mean you're ... well I mean, that ... that's-----

Deputy Eoghan Murphy: And they were commissioned by your Government.

Mr. Brian Cowen: Yes. Of course they were, but, I mean, I ... at the end of the day, you know, there are findings in the report. He says it should have been more ... it shouldn't have been ... it should have been more counter-cyclical. I'm simply making the point, well, if that's the case, were we prepared to have higher unemployment at that point in the economy? No we weren't.

Deputy Eoghan Murphy: That's not what I was asking.

Mr. Brian Cowen: So it's ... it's a different ... no, it's a different policy position, that's all.

Deputy Eoghan Murphy: It's a different question to the one I didn't ask. But, just again, staying with the Wright report, on page 48, Mr. Wright's talking about the monetary union and what impact that will have on fiscal policy, or what it should have, and he says, "Ireland failed this test of prudent fiscal management." And in your own opening statement, in paragraph 68, you say there was a failure to adopt policies to reflect the realities of membership of the euro. So, do you accept that there was a ... that we failed the test of prudent fiscal management?

Mr. Brian Cowen: But the European Union and the European ... and ECOFIN were constantly pointing to Ireland as an excellent example as what the rest of them should be doing, in terms of their fiscal policies and their ... and their financial management.-----

Deputy Eoghan Murphy: -----sorry, Mr. Cowen-----

Chairman: -----supplementary now.

Deputy Eoghan Murphy: But, the question hasn't been asked ... answered, sorry.

Chairman: Okay, well ask it again?

Deputy Eoghan Murphy: So, before I go to supplementary ... do you accept that? That there was ... Ireland failed the test of prudent fiscal management?

Mr. Brian Cowen: Who is suggesting we did?

Deputy Eoghan Murphy: Mr. Wright. But you said it in your ... in your opening statement, in paragraph 68, there was a failure to adopt policies to reflect the realities of membership of the euro. You said that.

Mr. Brian Cowen: Yes, but that ... that's a different issue, it goes back to 1999.

Deputy Eoghan Murphy: And that ... okay.

Mr. Brian Cowen: That's a different issue to what Mr. Wright was looking at.

Deputy Eoghan Murphy: No, sorry, he's talking about the Government adopting prudent fiscal policies to counter the fact that we no longer control monetary policy. I mean, you allude to this yourself in your opening statement, "Such conditions do not appear to have received adequate attention over the period 2000 to 2006". It's in your opening statement. So did we fail the task of ... test of prudent fiscal management?

Mr. Brian Cowen: Well, we obviously have failed the test of prudent fiscal management on the basis of the outcome that has now happened. But at the time, you know, we were pursuing a policy which we believed to be prudent, and which, in the absence of a once in a century event, would have proved to be prudent. I mean-----

Deputy Eoghan Murphy: This is my supplementary, Chair, thanks. Because, at the time, in February 2001, the Council did censure Ireland for its management of the economy. And I'll just quote from the ... the February Council decision-----

Chairman: What year is this, Deputy?

Deputy Eoghan Murphy: This is-----

Mr. Brian Cowen: 2001, I think, Charlie McCreevy was there.

Deputy Eoghan Murphy: February 2001, Chair:

> 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, despite developments in the course of 2000 indicating an increasing extent of overheating.

Is that not the Council in 2001?

Mr. Brian Cowen: In 2001. And then we brought in budgets in 2002 and 2003 where, uniquely, Mr. McCreevy brought in budgets which were under the amount that the Department of Finance suggested in June should be ... should be spent. So in ... we had a ... political decisions or policy decisions in May 2002, 2003, which render the warning, if you like, or the issue that they were raising, invalid at that stage, because he had dealt ... he had dealt with it.

Chairman: Go up there.

Deputy Eoghan Murphy: I think we will go to the other page in the Wright report with the graph, which has been brought up a number of times by colleagues, showing, actually, the June memorandum. And it was actually adopted by the ... the Government in the budget. That didn't happen following the year 2001. The budget for 2002 actually had the biggest discrepancy of all the years that we're examining, between what was laid out by the Department as prudent and what was adopted by the Government subsequently.

Mr. Brian Cowen: No, well I ... I mean, my recollection of Mr. McCreevy's ... in the aftermath of the dotcom collapse, was he brought in two budgets in a row, but I'm missing out in my year, 2001-2002 or 2002-2003, where he was ... he brought forward proposals which were less than what was ... what was being suggested. That's what I read ... that's what I read in some of the documents.

Deputy Eoghan Murphy: I'm not sure ... if you look at your screen I'm not sure if that bears ahead in terms of what this shows, because this advice was coming from the Commission, in fact it was a censure, it wasn't advice, in 2001, in February. And, this shows then ... the blue bar will show you what was being proposed in June of 2001 for the following year and what was actually agreed is the red bar, and we see it again in 2002.

Mr. Brian Cowen: I stand corrected. I stand corrected.

Deputy Eoghan Murphy: Okay. So, is the conclusion that the Department did not heed the warnings from the Commission, from the Council, excuse me, and that we did fail then, the task of ... test of prudent fiscal management, at the time, not in hindsight?

Mr. Brian Cowen: What is the test of prudent fiscal management you are applying? Is it ...

is the Stability and Growth Pact criteria?

Deputy Eoghan Murphy: No, no, it's not. It's that you've run your ... your budgetary policies and your fiscal policy in a way that would counter the fact that you do not control your monetary policy. The criteria is that you run your monetary policy and fiscal policy in a way that would counter the fact that you do not control your monetary policy. So, for example, the wall of money that was written about hitting the Irish economy as a result of entering the European Union ... sorry, the monetary union, the prudent fiscal policy management would be to counter that increase of money through budgetary decisions, not by overheating the economy as was stated by the council that we did do in 2000.

Mr. Brian Cowen: Okay. If that is the view of the European Union fine, if that's their view. I mean if you are asking me do I believe we were fiscally imprudent? At that stage, my view is full employment was the overall policy objective. We had surpluses. You know, we were in a better shape than a lot of the other countries and one of the controversies at the time was why was Ireland being singled out when there were others who were actually in excessive deficit procedure at the time.

Chairman: Okay, that's it. I will bring you back in this afternoon. Senator D'Arcy.

Senator Michael D'Arcy: Thank you, Chairman. Mr. Cowen, you are welcome. Tom Considine, former Secretary General of the Department of Finance, in previous evidence, stated the political pressure to ease up on what was seen as expenditure cuts was very strong. You made a recommendation to the Department, Mr. Cowen, to add an additional €900 million on top of existing costs to the Estimates for the upcoming budget. Could you tell us which persons or organisations exercised this political pressure and how this pressure was exercised before the Department June Estimates?

Mr. Brian Cowen: I think what he's referring to there, Deputy D'Arcy, is political pressure from within the Cabinet on consideration of proposals that were coming from the Department of Finance. When he talks about political pressure becoming irresistible, he is talking about in the subsequent bilateral Estimates discussions and the Cabinet discussions about those Estimates that it became clear that the policy decisions that were being made which would exceed what the Department had set out in June.

Senator Michael D'Arcy: Mr. Cowen, the FSR reports, you've addressed them on a number of occasions. You've also stated that there were attachments not just a report. When the reports were presented, were they presented to you or were you just given an executive summary?

Mr. Brian Cowen: The way it would happen is you'd get an embargoed version of the bank stability report when the Governor would come to see you to give you ... who would amplify verbally what was in it. You'd also obviously read it, you'd have ... it would be sent throughout to the various sections of the Department. There would be an analysis of it and you would also have it as part of your reading material all the time in terms of stuff coming in for reading by Ministers.

Senator Michael D'Arcy: How did you rate them? Did you rate them highly or lowly? What was your view in relation to them?

Mr. Brian Cowen: No. From a technical point of view, I'm sure they're quite good, they're quite comprehensive. The central banks everywhere have a certain view on things. They are not members of parliament so they have a view; it's a valid point of view one that should be taken account of, but whether it would dictate one's ultimate policy position as a matter for democratic governments to decide.

Senator Michael D'Arcy: Can I ask you to bring up the FSR reports?

Chairman: Which report? 2005-2006?

Senator Michael D'Arcy: 2004. If you would allow me, Mr. Cowen, because this is a line of questioning I have used previously in relation to household personal indebtedness. Starting with your period and this is in real time, this isn't subsequent reports from Mr. Honohan or Nyberg or others. The household indebtedness was in the first report itemised as an issue. Subsequently, in '05, '06 and, culminating in the final report, '07 that, from 1995, we have moved from 71% level of indebtedness to 248%. This is your watch, touched upon the interaction you had with Deputy Doherty that ... Did you do enough in relation to the level of indebtedness for the public who are now in very difficult circumstances, over €100,000 in mortgage arrears and a primary source of indebtedness was mortgage loans?

Mr. Brian Cowen: Well, I don't know was it ... it certainly was a very significant source. There was also .... personal credit exploded at times when people-----

Senator Michael D'Arcy: But the vast majority is mortgage.

Mr. Brian Cowen: Well, I'm not arguing. I'm just saying it is not... I take your point but it is not just residential mortgage debt; it's also personal debt, credit card debt. I think that basically what you see in the experience of moving from a low wage to a high wage economy that Ireland did from the 90s up to the mid-noughties, I suppose, you have the question then, because of higher disposable income, you have also better prospects, people feeling better about it and being prepared to invest whether it is in property or whether through personal ... use credit cards, etc. ... people felt obviously that they were in a position to do this because they saw their prospects as quite positive and the horizon out over the future quite steady and quite predictable. So that's the first point.

Secondly, the economic growth was driving the credit growth. There's no doubt about that. When economic performance went into reverse, credit growth stopped. So the issue is affordability, at the end of the day, and there were warnings I take it, and there were statements made by regulators and others about the need for people to be prudent, about the question of the interest rate cycle, and all this stuff. But, at the end of the day, moral suasion doesn't necessarily change behaviour; that's why you needed, perhaps, a more interventionist model. And it is true that the principles-based model that we had allowed this to continue. Before an intervention was made it was probably too late in terms of the size of the debt. So that's very much to be regretted. But I do make the point that, because of the formation of capital in the country, the ability ... where you get access to capital if you haven't indigenous wealth in your community, if people don't have the earnings for a long enough period of time to build their own wealth, then the question of low interest rate loans becomes a very attractive option for people if they're looking for housing.

Senator Michael D'Arcy: Should you have done more? Should you have intervened further?

Mr. Brian Cowen: As I say, the question of intervention was a regulatory matter with the banks. The regulator had to intervene. He is independent in that function.

Senator Michael D'Arcy: Were other tools available to you as the Minister for Finance?

Mr. Brian Cowen: I don't believe there were very many tools available to me in respect of that issue. Should I have been more vocal about it and more ... state more in public statements about it? Yes, probably is the answer to that. Not necessarily that we have might brought as big a change in behaviour as you'd hoped but if the Minister for Finance were more vocal on that issue, it might have had some impression.

Senator Michael D'Arcy: Could you have considered a property tax at that stage to cool the market? On your watch, Mr. Cowen, the State went from, a level of indebtedness, from below the European average to the highest in the OECD.

Mr. Brian Cowen: That's as a result ... Some of these things are a result of personal decisions that people make in a democratic society because they believe, in fairness to them, that there is a future there that will enable them to repay this. Unfortunately that did not happen.

Senator Michael D'Arcy: I understand that. Could you have considered other methods of taxation to cool the market?

Mr. Brian Cowen: Yes, I was just going to come to that point. It was never a consideration, I have to admit, by us to bring in a property tax during that time. As you know, there had been very poor experiences in the introduction of property taxes in Ireland up to then. So to make the point that that time nowhere in the political firmament was there the idea that that would be a resolution to the problem.

Senator Michael D'Arcy: Can I ask, Mr. Cowen, if you saw the evidence from Mr. Dan McLaughlin when he presented a number of months ago and he made the point that it was, in particular, the commercial real estate sector that did the most damage than any other sector. I mean, there's a lot of conversation about residential mortgages but that Anglo Irish Bank, which would eventually cost the state in the region of €30 billion, was a monoline bank, primarily for commercial real estate and everything attached to it. During your tenure as Minister for Finance, was the commercial real estate sector presented to you as a difficulty at any stage?

Mr. Brian Cowen: Well, I think it is referred to in some of the stability reports and it may well have been mentioned by Mr. Hurley specifically. I can't, actually, recall but I'm sure if it was an issue that was gaining recognition in terms of what was coming across their spectrum, I'm sure it was. As you know, this had been an area where, again, very low impairment of loans up to then, they were all being paid back. Certainly the level of concentration wasn't known to us and the cross-collateralisation that was going on wasn't known to us and maybe the absence of a single credit register was ... which has now been put in place, is probably a means of making sure that that would become known more in real time than was the case. But certainly I agree that the commercial property loan situation was an issue that needed to be resolved sooner than it was even identified.

Senator Michael D'Arcy: At what stage were those large exposures ... were you in finance, or had you left finance by the time it-----

Mr. Brian Cowen: I was out of finance.

Senator Michael D'Arcy: You had left finance. Can I ... final question, Chairman.

Chairman: Okay.

Senator Michael D'Arcy: Mr. Cowen, you said that the liquidity crisis was the reason why the cyclical taxes collapsed. I took that note, that that's what you said.

Mr. Brian Cowen: Yes, well I mean obviously when liquidity dried up, the unavailability of capital for continued lending, even at an abated rate, meant that the contribution that that was making to economic growth evaporated.

Senator Michael D'Arcy: Can I ask you that ... or can I put it to you that other countries had liquidity crises just like ourselves, but our collapse was much more pronounced than everybody else's. Could you explain that to me, please?

Mr. Brian Cowen: Two reasons, I think. Two reason, I think. Demographics, as I've explained earlier. Our demographics are different to the European average, much younger population, as I say between 15 and 34, over 1.5 million people, plus the immigration issue that was coming at the same time. So there was ... you could see that there was an increased demand within that period of time, but that's not the only reason. I think there's also the question of being such an open, internationalised economy. If you look at those who were ... who have had the biggest recessions, or the biggest contractions in the economy in the aftermath of this financial crisis, you're looking at Ireland, you're looking at Singapore, you're looking at Korea. Now, they've bounced back quicker, it's true, because a lot of the ... two thirds of the world growth is coming out of the Asian economies now but, in fairness, it's ... being a small ... being a small country, relatively small population, providing the value added services we're doing that are internationally traded, when that whole financial system creaked, a country like us, that doesn't have a big domestic market in what we produce, clearly can't compensate for the loss of ... in the international trade that that represented. So, those are two factors that are exceptional in our case. Plus, as I've admitted, the vulnerability we had to the construction sector as well was another factor that exacerbated the problem.

Senator Michael D'Arcy: And then the last question, Mr. Cowen, did you ever ask the NTMA to place funds within the NTMA in a particular bank?

Mr. Brian Cowen: No, an issue arose when the Secretary General asked me ... who was a member of the NTMA, asked me ... told me that the NTMA chief executive, who ... they're very strong on their independence, they wanted a written letter that they were to continue providing funds into the Anglo Irish Bank. In terms of deposits, overnight deposits, it was felt that, if it were to emerge that they weren't doing that, that that might reflect badly on the banking system generally. So that direction was written for by me in January of 2008 for a six-month period-----

Chairman: ... more explicitly in that timeline.

Mr. Brian Cowen: Six-month period, and it was renewed by my successor in July '08.

Chairman: Okay. Mr. Cowen, I'm going to try and wrap things up for lunch. I just need to get through one question with you, invite the two leads in, and hopefully we'll be out of here by 2.30 for an hour, at least.

If I can just bring the first document up there, it's the business planning review meeting with the MAC and it's of 19 November 2004, okay? And if I can just go to page 3 of it here, it says on here, yes, on the "Housing Construction" heading, it says:

> The construction sector is of major significance to the economy, disproportionately so given the historic levels of output of recent years. An estimated 80,000 units in 2004. In

2003, it made up 10% of GNP and 11% of total employment.

I just want to jump on then to reports that were issued in May 2005 and go on to page 2 of that. It'll come up now in a second. And, under the heading there ... it's about the third paragraph down, "Investment, Construction and Sectoral Analysis", Marie Mackle, it says:

> As indicated elsewhere the construction sector remains the major issue for this section. It is of major significance to the economy, disproportionately so given the historic levels of output of recent years - an estimated 77,000 units in 2004. The prospective reduction in housing output has significant implications for growth, employment, taxes and estimation of the CABB.

Then we'll move on to the next one, which is 2006. So, we have 2004, 2005 and now 2006 and once again it's the Business Planning Review, 3 March 2006, Budget and Economic Division. And we'll go to the second page of the document there and, once again, there is a heading there, "Construction and Sectoral Analysis" and once again it has Ms Mackle's name at the end of it ... or under the heading:

> We are very reliant on construction for both employment and economic growth. As a result it is the biggest domestic risk to economic development especially where some external shock negatively interacts with and affects the construction sector.

She then goes down, in the third paragraph, to close off, "Non-residential construction accounts for about half of construction output so it is worth devoting time to." And then closes that paragraph, "We need to develop a better understanding of the shift from manufacturing to services, the driving forces and the possible policy implications."

Mr. Cowen, in the business planning review, as I just mentioned, okay, and going from 2005, they're demonstrating that there were concerns on the reliance of the construction sector and house price inflation. These were expressed as early as 2004. The important analysis of non-residential construction sector was identified, as well, as I've ... as I mentioned, by assistant principal Marie Mackle, who was responsible for construction sector analysis and saw this as a priority in 2005. Did you take part in these business planning review meetings, or were you updated by senior management on assistance principal Mackle's concerns mentioned in these reports?

Mr. Brian Cowen: No, I didn't take part in these. These are sort of internal management meetings. I wouldn't have taken part in that and I wasn't aware of any ... I wasn't aware of any ... Ms Mackle I don't know personally and I'm not aware that anything she had to say was brought to my attention as being of specific note to me.

Chairman: Had you become aware, or were you involved at some point during your tenure as Finance Minister in the fact that e-mails and speaking note recommendations from assistant principal Mackle were revised by superiors in the Department in order not to reflect these strong concerns?

Mr. Brian Cowen: No, this was nothing to do with me. Again, internal management matter.

Chairman: Okay. Would you have been broadly cognisant of the concerns, though, that were expressed by Ms Mackle? Was that a general discourse that was, to your knowledge, that ... as having been out there and been reflective of concerns with regard to the whole construction industry, and where it was actually going, and the State's dependency in terms of cyclical taxes and so forth?

Mr. Brian Cowen: Well, I shared the concern that we had a level of output that clearly was not sustainable over a period of time and that we needed to see, hopefully as quickly as possible, how that output would reduce and take account of it in our budgetary strategy and that's what we did in '08.

Chairman: So this is what was happening in the Department of Finance and what was happening out on the street was as follows, if I can bring this one up here, which is residential house prices were escalating at a very, very rapid rate, if you'll see the chart coming up in front of you there, and particularly so since the reversal of what might be called the Bacon measures. And we see house prices taking off in or around 2001 and they continue indefinitely until ... well, what was probably considered indefinitely, until 2006 and 2007 and they start crashing after which.

We also see that ... if I can bring up the next one there, which is the relationship of ... yes, here it is. We see the relationship of the cost of a house to somebody actually working and these figures relate to the average industrial wage and the relevance of house prices in respect of that and, once again, we see a sort of a flat line area there which is around the time of the Bacon report which shows that there's a kind of ... there is a flat line position and people's earnings are somewhat maintaining a relationship with the price of houses. But, all in all, what we see between 1996 and then, with the removal of Bacon and its recommendations, and moving to 2006, we see, in the ... in the new house arena income ratios to house affordability moving from 4.5 to just under ten times, and we see it in the second-hand market moving from just over 4% to almost 12 times ratios in the ... in the second-hand market. Coming back to Deputy Doherty's question to you earlier this morning, what was being done to try and contain this very, very escalating house price inflation and the relationship it was having upon people out there in the street to be able to ... and families to be able to buy their own home, and in the context of what Ms Mackle, in her reports, was actually saying. It seemed to be - in all sorts of spheres - that there was a lot of red lights going off, that there was something of concern in the construction sector, particularly in residential stuff.

Mr. Brian Cowen: Yes, well I think the only way to deal with that was to increase the supply side. And clearly there was a demand for housing and there weren't enough houses on the market to deal with that demand. And there was a need to do a number of things, some of which would have medium to long-term effects, but the most immediate way you could deal with this problem of ... of overheating the housing market was to increase the ... increase supply.

Chairman: But we increased supply, and I think we actually ... I think this was research I carried out in the previous Administration, and I can maybe dig out this afternoon ... supply was actually increased, I think, supply was actually increased 60% beyond actually demand, and prices actually went up even further, so the laws of supply and demand didn't actually work in this context.

Mr. Brian Cowen: Well, I mean, that comes back down to, you know, problems with planning and where ... where ... where the permissions were being granted and where the demand was being made and, at the end of the day, you know, I can't ... I can't say anything about that. All I can say is that by 2007-2008, we had reached the point ... the inflection point, where prices were coming down and that had come in the aftermath of very high housing output in the previous year.

Chairman: Was ... at any time was it a concern to you that the ... that the old school rule of buying a home, which is three or four times your income, should be over a 20-year schedule would have been the way to buy a house, that that had changed quite significantly, particularly so after the Bacon measures had been taken out, that it was now moving up to 10 to 12 times one's income? The schedules were moving out to 35 to 40 years. The mortgage products were changing, with 100% interest and loan-to-value rules and all the rest of it, were going out the window. At any stage, were you in the Department of Finance saying, "We need to take an action and take a very engaged action into the market to ensure ..."? Because there were other engagements in the market with regards to tax reliefs and all the rest of it, like they ... they do impact how the market works. Were you saying that ... "Homeowners are getting into a very jeopardised position here, we need to take actions"? Maybe you could tell us what you considered and what actions you took.

Mr. Brian Cowen: Well, what I was saying is in relation to the Bacon stuff, that was about how do you increase supply, that was the main theme there. Because Bacon was asked to come in and help at the end of 1999, on the basis that you needed to increase supply quite quickly ... the capacity wasn't there to do it, and a lot of ... there's a new Planning and Development Act and a lot of special development zones were introduced, a lot of things brought in, serviced land initiatives, all of that. But all of those Bacon-type recommendations were based on how do you facilitate supply quickly. There was also Part V issues, which is about how do you get social and community gain into the system, and that was ... that had some success as well. But, I mean, to come to the point that ... the basic ... you know, it was hard ... in a market situation, I wasn't promoting high prices. I wasn't saying "Let's give ... let's get prices higher". I was saying to the industry, and indeed as the Minister for the Environment would be saying because he was in charge of housing policy - I was in charge of the fiscal side of the thing - but in housing policy you're saying "Can we get ... where the demand is needed, can we get houses built?" And we're seeing, even today, you know, I'm not saying it's the same thing but the question of trying to get demand met in places where it's needed is the ... is the crucial issue, and having capacity to do that. We had capacity then.

There were, clearly, at local authority level, development plans adopted which provided for house construction in areas where demand hadn't been ... hadn't been obviously assessed properly, and in other areas there were local authorities were there was clearly demand for housing where people were refusing to adopt development plans that would facilitate it. So, therefore, you had a dislocation, but that's not ... you know, I don't ... the other point is on the regulatory side, I agree, you know, looking back now, there was certainly reason for the regulator to ... to intervene rather than simply adopt statements saying we'd be better ... you know, "Watch yourself getting a 100% mortgage" and all this stuff. We needed a more interventionist approach and we didn't get it. Now, that's where that ended up, and obviously it ... it contributed to some of the problem as well. So I ... I ... I mean these are the ... these are what we know now. I ... I just felt supply ... increased supply is the best way of dealing with moderating house prices.

Chairman: Did that work?

Mr. Brian Cowen: Well it did by 2008, and 2007 and 2008.

Chairman: But ... but by 2008 the affordability of buying a house in this country was eight to ten times one's income. It had moved from that. So the ... the ... there was no ... there's no evidence to show-----

Mr. Brian Cowen: No, what you were going to have-----

Chairman: -----just the houses on the market made them cheaper-----

Mr. Brian Cowen: Well what was going to happen then-----

Chairman: -----or made them more affordable.

Mr. Brian Cowen: Sorry. Well, what was going to happen then was you were going to have reduced housing output in the private sector and hopefully space coming back into the public sector for private people to go and provide social and public housing.

Chairman: But where's your evidence to say that the ... that the increasing of supply would actually reduce ... or make houses more affordable?

Mr. Brian Cowen: Well, I mean, it's a basic economic fact of life, if ... if-----

Chairman: But that didn't happen.

Mr. Brian Cowen: Well, it didn't happen because there was a dislocation was between where the houses were built and where the demand was and that comes back down to then whether local authority areas in planning committees that weren't facilitating the demands of houses to be ... to be provided and whether others who felt that they ... they could provide housing and that the demand would come to them. It didn't happen.

Chairman: And ... and ... were tax reliefs creating houses being built in this country to which they weren't really being built for people to purchase? They would have been-----

Mr. Brian Cowen: The tax reliefs related to non ... mostly related to non-residential type building. I mean, the other point about-----

Chairman: Holiday homes?

Mr. Brian Cowen: -----this question of property reliefs, Chairman, the vast majority of property reliefs, the big money tax expenditures and property reliefs relate to mortgage interest relief-----

Chairman: Okay.

Mr. Brian Cowen: -----for people being assisted in paying their mortgage.

Chairman: Deputy O'Donnell, wrap up, please.

Deputy Kieran O'Donnell: Thanks, Chairman. Was there an imbalance created in the ... in the structure ... the financial structure of the Irish economy during your period as Minister for Finance, where, effectively, construction took over from exports as the main driver of the economy, where we had double digit growths in exports up to 2000 and really, from thereafter, there were single digit growths?

Mr. Brian Cowen: Well, obviously, it is true that, as I said before, domestic demand became a greater component of growth than export. But the level of export growth we were achieving up to then wasn't necessarily sustainable either, because what was happening is you had ... you were moving from being a low-wage to a higher-wage economy and that would have its own cost competitiveness impacts. My point is that the broader definition of competitiveness shouldn't simply focus on cost but also focus on quality of infrastructure to build productive capacity and quality of people.

Deputy Kieran O'Donnell: Did the wage demand-----

Mr. Brian Cowen: But certainly ... sorry.

Deputy Kieran O'Donnell: Did the wage demands in the construction sector bring about lack of competitiveness in the export market?

Mr. Brian Cowen: Well, it's obviously that our ... our unit labour cost increased *vis-à-vis* our competitors, there's no question about that. But sometimes that's a function of a maturing economy where people are getting to a point where they're able to, you know, have higher wages and you've reached ... you know, you've reached ... sorry, you've reached a plateau in your exports where you've grown to what ... the capacity you have and then you have a, sort of, a less ... it's like the economic growth. Our growth will never be what it was from '98-2002.

Deputy Kieran O'Donnell: Was ... was the eye taken off the ball in terms of the export side of the economy ... we'll say, more towards the construction side?

Mr. Brian Cowen: Well, I think there's no doubt that, you know, our costs were affecting our export performance. There's no doubt about that. And what I'm ... all I would say to you is given that you had a very tight labour market, you had to stop wage pressures, you had to reduce taxes to keep disposable income in their pockets, you know, to avoid them coming with claims of 6%, 7% or 8%, which would exacerbate your competitiveness problem, and try and build productive capacity so that you can ... that you can meet increased demand that way, otherwise ... but I do accept, you know - there's no point in saying otherwise - the construction sector became a far too big component in economic activity and crowded out some economic activity elsewhere, that's ... that's-----

Deputy Kieran O'Donnell: That was-----

Mr. Brian Cowen: -----that's indisputable.

Deputy Kieran O'Donnell: Okay.

Mr. Brian Cowen: But also it was mis-analysed because there was a thinking that, there was a ... there were factors in that that were giving ... that were rationalising why that spike was coming and how it would ease off over time.

Deputy Kieran O'Donnell: Okay.

Mr. Brian Cowen: And the ... as I say, the silent risks that were building up in the system to accommodate that is what eventually caused the problem.

Deputy Kieran O'Donnell: Can I go to Vol. 1, page 150, Chairman, please? Page 150, Chairman.

Chairman: Sorry about the interlude, Deputy. Go on, fire away.

Deputy Kieran O'Donnell: And it's dealing with the response within the Department to Morgan Kelly's article in December 2006. So it says:

> We must be careful that we do not over-react to the current easing from the very high levels of activity. House prices have fallen back slightly in recent months, although prices still remain above their levels this time last year. I share the views of most commentators that house price increases in recent years have been underpinned by many factors including

a strong economy, increases in employment, reductions in taxation and lower interest rates resulting from participation in monetary union.

Mr. Kelly ... Morgan Kelly was talking about declines of between 40% and 50% in house real prices. He was proven to be correct. When that article was published-----

Chairman: Put your question, Deputy.

Deputy Kieran O'Donnell: -----what was your reaction? What was your reaction within ... both for you and within the Department, and your ... what was the basis of your response to his article?

Mr. Brian Cowen: Yes, just to clarify, it was a reduction of 40% to 60% over an eight-year period. When the liquidity crisis hit, that 40% to 50% came quickly and ... I'm just making the point, no more than he or I could see it, the man was more accurate, in any event ... I'm just saying, but ... I just want to make that point - it was over an eight-year period. It wasn't ... he wasn't predicting overnight this is going to happen. And I was saying that he saw that as the wider ... first round effects of that would be higher unemployment because of less labour in the construction industry because of reduced output. What we saw was, that came out, as I was saying ... I explained that in my statement, really, how ... how that came out was as a research paper attached to the ESRI bulletin, which is fine, I mean, that's okay, but ... and then Alan Barrett's ... gave the ESRI assessment that morning in ... in "Morning Ireland". And, to be honest, the Department of Finance view was more consonant with Dr. Barrett's view, although less accurate than it was with Morgan Kelly's view.

Deputy Kieran O'Donnell: What was your own reaction to the article when you read it?

Mr. Brian Cowen: My own reaction was I thought it was pessimistic, very pessimistic. I thought it was very much a worst-case scenario. I felt there was a consensus of opinion against him. He was an out ... he was an outlier in that respect. It doesn't mean he wasn't right or more correct than the consensus but, normally, you find you're veering towards the, you know, "What's everyone else saying compared to this?" And "Is he correct?" If there's more going with him, you say "Well, that's more likely to be correct than otherwise." That's a normal deduction you'd make based on how you assess opinion but I, obviously, said to myself "It's hopefully ... if it's over eight years, it's a definition of a soft landing, not as soft as what we were hoping for but at least it's out over a period, and we'll have time to adapt." The problem is there was no time to adapt when the crash came.

Chairman: Okay. Thank you very much, Deputy. Deputy Higgins, and we'll-----

Deputy Joe Higgins: Yes, I just want to deal with one question, Mr. Cowen, because of time, and it relates to, again, the question of resources in the financial regulation area in your time. Now, you said in point 27 of your written statement "The Central Bank and the Financial Regulator's office had significant resources in dealing with the supervision and regulation of the lending institutions." If I could look very briefly just at the evidence from Mary Burke, who was head of banking supervision in the Central Bank 2006-2008, and it's page 5 of her written statement and in the bottom ... I'll draw your attention to the last paragraph, Mr. Cowen, but in the page before, which there's not a need to go to, she does refer to only three ... only a three-person team supervising the Bank of Ireland and Anglo Irish Bank and another three persons, Allied Irish Bank and IL and P, and then at the bottom of page 5, she says "While an additional complement"... no, sorry, the second last paragraph first, "The level of resources and the associated level of available specialist expertise was not such as to be capable of delivering intrusive supervision - even in a 'business as usual' mode of operation." She goes on to say that then how more difficult things became, and then in the last paragraph:

> While an additional complement of three staff was agreed in 2007, my request for additional staff in May 2008 in the face of the financial crisis and the demands being placed on the Department was effectively refused. In the context of manpower planning, I requested an increase of six staff in order to establish dedicated two-person teams for each of AIB, BoI, IL and P and Anglo. I was clear in supporting documentation that I did not view this as an adequate number, but - conscious that Mazars were then conducting an organisational review, including a review of resources – I positioned this as an interim request.

And, just for time, basically:

> ...the outcome was an increase of only 0.4 persons ... A subsequent oral request that staff who had previously worked in [banking supervision division] be reassigned to the department was also rejected.

Were you aware that this was going on, Mr. Cowen? Were you familiar with the feeling of leading people in the regulator's office that there wasn't sufficient staff? Was it brought to your attention by Mr. Brian Patterson, the chair of the Financial Regulator, and did you take any action in relation to this issue?

Mr. Brian Cowen: No, I don't believe that it was brought to my attention; I don't recall it being brought to my attention. As I say, my understanding of this thing was that the financing of this authority was based on levying of the financial industry and balances being available from the Central Bank to fund their aspect of it, so it was really ... so this ... if it was an issue that they were looking for some redeployment, that would be an internal management issue - I don't believe it was brought to my attention - an internal management issue between IFSRA and the Department.

Deputy Joe Higgins: So you were not aware of the concerns-----

Mr. Brian Cowen: I can't ... I can't say I was, at this point. I can't say I was. You're asking me do I recollect that. I don't recollect that. If I did, I'd say I did. I don't recollect-----

Deputy Joe Higgins: Would you say on the face of her evidence that resources were overstretched?

Mr. Brian Cowen: I agree. I mean, when I started hearing the numbers of people that were assigned to each bank in the detail of this inquiry, I was surprised. I would have thought that with the numbers that were employed in those organisations, that the skill sets appropriate to them would mean that there would be more people than that doing the job that was being done, and that was an assumption one could reasonably make, given the numbers that they're in there.

Deputy Joe Higgins: And are you surprised now that this wasn't brought to your attention by the regulator?

Mr. Brian Cowen: Well, it was ... to my honest ... my honest recollection is that it wasn't brought to my attention. I hope I'm correct in saying that. I genuinely don't recall that. But I would have thought ... my point to you back is I'm just trying to figure out, if they're being funded by the financial industry and the Central Bank, it's just a matter of levying. Why don't they just levy? I mean, I know they have annual budgets, but there surely is sufficient flexibility if they wanted six people. They weren't depending on Exchequer funds to do it is the point I'm making to you, and, therefore, maybe, they have the same problem as we would have in the public service doing that. I doubt it, but I can't explain it. You'd have to ask the people concerned that were dealing with it.

Chairman: Thank you very much, Deputy. I now propose that we take a break for lunch. It's coming up to 14.40. I propose we break until 15.40 and returning maybe 15.40-15.45. In that regard, can I now excuse the witness. We just need to have a brief private session ourselves, just to deal with one notification matter, and we can return. So, in doing so, 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 their evidence on matters that are being discussed before the committee. With that in mind, I now propose to suspend to go into a private session and to return in public session at 3.40 p.m.

The joint committee went into private session at 2.38 p.m. Sitting suspended at 2.53 p.m. and resumed in public session at 4.10 p.m.

Chairman: With members present and with Mr. Cowen present also, can I propose that we go back into public session for the afternoon? And in doing so, announce that the Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask those members and people, visitors in the public Gallery, to ensure that their mobile devices are switched off? So welcome back. Our witness today now continues to be Mr. Brian Cowen, former Taoiseach and Minister for Finance and in this afternoon's session we'll broadly focus on Mr. Cowen's tenure as Minister for Finance from the general election in 2007 until his appointment as Taoiseach in 2008. So welcome back this afternoon Mr. Cowen and if I can invite our first questioner this afternoon, which is Deputy Michael McGrath. Deputy, you have 25 minutes.

Deputy Michael McGrath: Thank you Chair, you are welcome back Mr. Cowen. From August 2007 there was turmoil in the financial markets. In September 2007, we had queues on the streets of Dublin as customers of Northern Rock sought to take out their money. Now, in November 2007, the domestic standing group was told, and it's on a document which is on your screen now Mr. Cowen, the domestic standing group was told of a ... an increased risk of liquidity issues arising for Irish banks into 2008, if present market conditions persisted. There was a reference to the banks making contingency plans and there was also a reference to negative international sentiment regarding the Irish banking sector and the Irish property market generally. So this was in November 2007. Now, in January 2008, in a financial stability issue scoping paper, which I'll put up in a few moments, looked at a range of scenarios including an institution being illiquid but solvent, the scenario of an insolvent financial institution, it looked at an examinership process and in view of all of that Mr. Cowen, my question for you is, given the possibility - and it was clearly a distinct possibility - that a State intervention in the banking system would be required in the following months, why was it not considered to be a good idea for someone to go in and examine the underlying financial health of the institutions, given that there was a likelihood that the State was going to have to intervene? And by that I mean look at the quality of their loan book, look at the quality of the underlying collateral or security, look at the concentration risk in property construction, why was that not done as soon as the warning flags were beginning to be waved?

Mr. Brian Cowen: Well, I don't believe that the members of the domestic standing group believed that such an intervention would ... was likely at that point. I mean, what they were doing was some scenario planning. As you say, the liquidity issue was becoming clear, sort of in relation to ... sort of interventions the ECB were making from the time that Paribas Bank started to require liquidity, so the scenario planning you're talking about, in January, was really about setting out a sort of a work schedule and the scoping exercise was that point, what do you do now ... what sort of work do we need to be doing here. One of them as you say was in relation to emergency liquidity assistance, and looking at that, as to whether that would be a tool that may be used in the future if things deteriorated or if liquidity could no longer be obtained by the Irish banking system. And they looked at ... the Northern Rock situation obviously came into play there, and that seemed to be a strong consideration that they had. Throughout this period unfortunately, looking back on it now, it doesn't seem to me that there was a realisation that there could be a systemic risk and that they were really talking about developing options in respect of any troubled institution rather than system, so it wasn't clear at that point ... now looking back now perhaps ... but at that point it wasn't clear that there was a need to do anything other than watch the liquidity situation through the establishment of the liquidity group and then be working on contingency scenarios in the event of an institution becoming problematic.

Deputy Michael McGrath: Can I ask that the next document would be put up, please, and this is the January 2008 paper, which is "Financial Stability Issues - Scoping Paper". And if you just look at the very top of that, Mr. Cowen, the purpose of the paper is set out, "to identify significant issues relating to the options available to the Irish authorities in the case of a systemic threat to financial stability, as well as consider any issues regarding the structures currently in place to oversee financial stability planning arrangements and also to manage a financial crisis". So, contrary to what you've just said, the issue of financial stability, and the issue of a systemic threat to that stability, was being actively considered in January 2008. So I go back to my very first question, which was: in light of that fact, and this was eight or nine months before the issue of a guarantee was executed as such, why did the authorities and why did you, as Minister, not insist that there would be a detailed examination of what the State may well have to take on? You were taking on, eventually, the liabilities of banks. That was clearly a possibility at this time, and yet why was that work not done, to go in and have a detailed check on the health of the banks?

Mr. Brian Cowen: Well, I don't agree, Deputy, that it was seen as likely to be done. I agree, I take the point that the scoping paper was about setting out options, or having a look at what all this various scenarios or spectrum of possibilities might be. But the concentration was on an institution-specific problem rather than a systemic problem. Now to come to your point, should the regulatory authorities have insisted on whatever powers were available to them to go in and look and see what the situation was, maybe that's something that you've put to them already. But as things stood, this official-level group were going to engage on work whilst the analysis was it was a liquidity problem which was not pressing at that time. It's not to suggest that complacency, it's just to suggest that that was the approach that was adopted.

Deputy Michael McGrath: But the very purpose of this paper was relating to the options available to the authorities in the case of a systemic threat to financial stability. So it was very much on the table, that was the overall purpose of that document, was to look at the different scenarios around the issue of systemic threat; and it did look at banks becoming illiquid, an insolvent institution, the need for ELA, the need for legislation and, you know, my question is again, that in light of all of that, that these were live issues eight months before the guarantee, why was it not felt necessary to check the underlying financial health of the banks in terms of the quality of their loan book, the concentration risk in property and construction, the underlying security that they had for the loans they'd given out? Wasn't that considered?

Mr. Brian Cowen: It continued to be the view of the authorities that the banks were well-capitalised, it continued to be the view of the banks that there was liquidity pressures, but it wasn't viewed at the time that there was likely to be a systemic threat. And I can only answer you by saying that they felt that this was an issue that was being watched, that they were looking at various options, and that the question of an ... intervening in relation to the banks themselves and getting the sort of information you're talking about, didn't arise with them at that time.

Deputy Michael McGrath: Mr. Cardiff said in his evidence that it was a failure not to do what I've suggested there, to have gone in at that stage and checked what you were getting into eventually. Do you accept that?

Mr. Brian Cowen: I accept that if Kevin Cardiff was of that view, yes, I would accept that, if that's ...it's something looking back now, you'd say, why, why was it the case that there was a very graduated approach to it. And the point I'm making is that it was felt that whilst there was a liquidity issue, the backdrop was of the place ... of all these banks being well-capitalised and that they were sort of going to work over a period to see how this ... to see if the tightening would increase so that anything beyond the liquidity issue would arise.

Deputy Michael McGrath: Can I take you up an issue touched on before the break and that was the instruction to the NTMA to place deposits with the Irish banks in late 2007-early 2008, can you clarify what happened there?

Mr. Brian Cowen: Well, I recall the Secretary General at the time, David Doyle, who was a member of the NTMA, saying to me that there would be ... that the NTMA would look for ... would be looking for a written instruction if it was a case that they were going to lodge some money in the bank because they had taken a policy not to lodge overnight money with Anglo Irish Bank. I asked him for his view on that and he said that maybe it was an instruction that could be issued and I went with that proposal.

Deputy Michael McGrath: And how much money was lodged as a result in the different institutions?

Mr. Brian Cowen: I can't say that.

Deputy Michael McGrath: But is it the case that since the summer of 2007, the NTMA had started to move deposits out of the Irish banks because of growing market concern about the Irish banks, that there was some soft pressure placed on the NTMA from the Central Bank or the Department of Finance to put money into the Irish banks and the NTMA insisted on a letter of instruction from the Minister, a letter of comfort as such, in order to do that?

Mr. Brian Cowen: There was a letter of instruction, as I understand, because they said they required a direction on that and they were always very mindful of their own independence. I wasn't aware ... I'm not sure it was being withdrawn from all banks, they had a specific issue with that bank and it was suggested to me that a letter of instruction would be appropriate so that people would understand that there wasn't something happening there that the NTMA were, in some way, not supporting an Irish bank.

Deputy Michael McGrath: And was that specific to Anglo or the other Irish banks as well?

Mr. Brian Cowen: My recollection now is that it was about Anglo.

Deputy Michael McGrath: Okay. And the figures that have been reported are essentially that there was about €0.5 billion placed by the NTMA with the Irish banks in December 2007, €200 million each for Bank of Ireland and AIB, €50 million for Irish Life and Permanent, €40 million for EBS and Anglo. Do those figures mean anything to you?

Mr. Brian Cowen: That could be the case. It could be the case. I can't give you the figures.

Deputy Michael McGrath: And was it just one letter of instruction or were there were subsequent ones?

Mr. Brian Cowen: Yes, it was ... a letter ... a letter from memory, there was a letter that was of six months duration and I think it was renewed in July.

Deputy Michael McGrath: And can I ask you, Mr. Cowen, was it really appropriate to instruct the NTMA which after all was the independent guardian of the State's cash and who had come to a professional judgment that that money should not be placed in the Irish institutions? And you instructed them, as was your right, to place that money with the Irish banks. Was that appropriate?

Mr. Brian Cowen: I felt it was appropriate based on the official advice I was getting, based on the view that there shouldn't be any misinterpretations about the NTMA not being supportive, of just putting overnight money into these banks. In other words, was it a disproportionate thing on their part, given that we just had a liquidity problem?

Deputy Michael McGrath: And did you question the underlying reasons as to why the NTMA had a reluctance in the first place to put their money in with the Irish banks?

Mr. Brian Cowen: No, I think I got ... as I say I had a discussion about whether this letter of instruction should issue and it issued and they responded on that basis. But I didn't pursue it any further with them because they are, as you say, independent. I don't deal with their day-to-day business but there was just an issue that was felt that I should have them do. It wasn't big money, as you say.

Deputy Michael McGrath: On St. Patrick's Day 2008 following the collapse of American bank, Bear Stearns, the share price of Anglo Irish Bank dropped by some 15% in one day. Can I ask, Mr. Cowen, what was your reaction to that? What was the reaction within the Department of Finance and the Central Bank to that share collapse on that day?

Mr. Brian Cowen: Well, obviously there was concern about that. I was out of the country on that particular day for a few days and was notified that the chairman of the Anglo Irish Bank wanted to talk to me. I said, "Fine, if that's what you want to do." I rang ... I think I rang the Central Bank Governor first, John Hurley, and said to him, "Would it be appropriate if I took a call from the Anglo Irish Bank chairman?"

Deputy Michael McGrath: Mr. FitzPatrick?

Mr. Brian Cowen: Yes and he said "Fine." So obviously, I heard what he had to say and I referred him down to the authorities. I said, "The best thing you can do is go to the authorities and have that matter dealt with."

Deputy Michael McGrath: And what did he have to say?

Mr. Brian Cowen: He said he would do that.

Deputy Eoghan Murphy: No but, what was the purpose to his phone call to you? What was the nature of the discussion?

Mr. Brian Cowen: The purpose of his phone call was to say to me that they ... that this had happened in relation to the share price and that they believed that there was a position being taken by Mr. Quinn in relation to their share and that's ... that the market had this information was out in the markets or whatever. And I said that these are regulatory matters, these are matters he needed to refer down to the Central Bank and to the Financial Regulator and have it dealt with there.

Deputy Michael McGrath: And was that the first you had heard of Seán Quinn's exposure to contracts for difference in Anglo?

Mr. Brian Cowen: I think before I had ... before I left for that trip that time around St. Patrick's Day, I think the Governor had come to see me to indicate that there was this rumour going about that this was the case and that's when ... when the share price fell, I was asked to take a call from the chairman and spoke to the Governor first and then spoke to him and referred him down.

Deputy Michael McGrath: Did Mr. FitzPatrick say something along the lines of what was written in *The FitzPatrick Tapes* by Tom Lyons and Brian Carey, "What I said was, what was really happening was ... coming ... from the shorters, these guys, the hedge funds, trying to get Quinn"? Was that his message, his explanation?

Mr. Brian Cowen: I can't ... I can't recall that and I haven't read the book.

Deputy Michael McGrath: Okay, and the fact that there was such a hit to the share price over one day, did you not regard that as the markets passing judgment on Anglo on the business model? Was it a forewarning of greater problems to come ... that the market had lost confidence in that way?

Mr. Brian Cowen: I didn't see it as that ... I didn't see it as ... I didn't see it as something in the business model. I saw it as something that clearly there was concern about the position that had been taken by Mr. Quinn in the bank.

Deputy Michael McGrath: And what did you do with the information you ... you gathered? You asked Mr. Fitzpatrick to take up the issues with the authorities-----

Mr. Brian Cowen: Absolutely-----

Deputy Michael McGrath: -----and did you personally do anything further on that issue?

Mr. Brian Cowen: No, I didn't. These, these were regulatory matters and I don't believe there should be political interference in relation to regulatory matters.

Deputy Michael McGrath: You attended a private dinner in the Anglo Irish Bank offices on 24 April 2008. How did that dinner come about and were you accompanied by an official from the Department?

Mr. Brian Cowen: No. How that came about was ... I was about to leave the Department of Finance at that stage. I was heading to the Taoiseach's office. Fintan Drury who, as has been said, is the first person I know since I was in college, he was leaving as director of the bank. His tenure was up, I think in May or something like that. So he said that it had been clear that the Anglo Irish Bank had sought me to have a meeting or to go to a dinner, a board dinner. I had never been in touch, they had never been in touch with me during my time as Minister for Finance, so they felt it wouldn't be appropriate ... it would be appropriate before I left the Department that I would join them for a dinner or whatever so I said, "Okay, when was that due?" It was on at eight o'clock in the evening one evening. I was on my way home or would be heading for home after the meeting so I said to Mr. Drury, ''I'll go with you and you can introduce me to these people''. Many of them I didn't know before, well I knew some of them but on the executive side I wouldn't have met ... I think that was the only night I ever met Mr. Drumm, for example. So-----

Deputy Michael McGrath: Was it informal or were there speeches or ...

Mr. Brian Cowen: It was informal. There was no big speeches really. There may have been ... I have some recollection, I tell you the truth I wasn't ... I didn't go with any brief or guide or didn't bring any papers or anything like that. As I say, it was sort of a courtesy thing that I had never met them during all the time I was Minister and they just felt it wouldn't be right if I hadn't ... didn't meet me before I left office.

Deputy Michael McGrath: Were you accompanied by anyone?

Mr. Brian Cowen: No, as I say I went with Mr. Drury to that meeting ... to that dinner.

Deputy Michael McGrath: And can I ask-----

Mr. Brian Cowen: There may have been ... there may have been ... my recollection is there may have been one of the executives at some stage, it was a very social occasion but at some stage, got up an made some comment about the banks ... how their bank was doing and business and all the rest of it and size and all the rest of it but I wasn't ... it wasn't something that I was taking notes on.

Deputy Michael McGrath: Can I ask in light of the fact that the share price had taken a whack a month earlier and the knowledge that you had learned of ... of Mr. Quinn's contracts for difference, for example, and the serious liquidity pressures that Anglo and other banks were facing, was it wise and prudent to go along to a dinner like that without an official from the Department of Finance from the banking side?

Mr. Brian Cowen: I think it would be, you know, stretching things a bit much if these people are ... predecessors of mine have been at far more bank dinners than I was ever at. If anything, one of the private criticisms might have been that I wasn't meeting these guys very much at all for ... in my four years. So, you know, there was nothing, it was just a question of attending a dinner at their request. And that's what I did. I didn't intend doing any business, I didn't do any business, and it was a very social occasion. It wasn't a sit-down business agenda meeting or something, obviously that'd be different, you'd expect them to come into the Department of Finance and the meeting would be attended by officials or whatever. It wasn't that sort of a situation.

Deputy Michael McGrath: And were the pressures that the bank was facing at that time discussed?

Mr. Brian Cowen: No.

Deputy Michael McGrath: No, not at all? Okay. Mr. Cowen, did anyone lobby you for a guarantee of bank liabilities during your time as Minister for Finance? So up to May 2008, were you lobbied personally-----

Mr. Brian Cowen: No.

Deputy Michael McGrath: -----in favour of a guarantee of any kind?

Mr. Brian Cowen: No.

Deputy Michael McGrath: No. As you know, we heard evidence from Kevin Cardiff that a number of people had made representations or had made their views known in favour of a guarantee. He said Seán FitzPatrick did, for example, through Governor Hurley, in April 2008 ... that former Minister McCreevy, at an event, expressed his view that there should be some political statement behind the banking system. You had no knowledge of any of that?

Mr. Brian Cowen: No, I hadn't, and I'd no request for guarantees from anybody right up to the time I ... we made the decision on 29 September. The situation was, in relation to those matters, I understand, and listening to some of the evidence of others, sorry, of Kevin Cardiff certainly, was that he was aware that John Hurley had some conversation ... that some people had a conversation with John Hurley to that effect. I mean, John Hurley would be interfacing with the banks on a regular basis and any time I ever met him it was never on the basis of what conversations he had with anyone, he just gave me what the Central Bank's position was on things. So, you know, it's not surprising to me that I wouldn't know about that.

Deputy Michael McGrath: Okay. And his reference in his testimony to a "DD" having suggested the need for a broad guarantee, he couldn't be certain of who DD was referring to; you can't enlighten us on that?

Mr. Brian Cowen: I can't.

Deputy Michael McGrath: Okay. Why was resolution legislation not prepared in the first five months of 2008, given that you, as a Department, were looking at all of the various scenarios? There was certainly a reference to nationalisation legislation in early 2008 but why was special resolution legislation dealing with a scenario of a bank failing and the need to protect depositors - try to separate them from other liabilities - why was that not advanced?

Mr. Brian Cowen: My recollection of that is, and I'm not ... my recollection of that is that when some inquiry was made about that legally in the AG's office, that some serious legal problems were pointed out, which the AG can best deal with you on ... it related to the property rights or something. So, as far as I'm aware, it was ... there's a legal issue there in relation to how that couldn't have been progressed the way it should have been.

Deputy Michael McGrath: Okay. So in May 2008-----

Mr. Brian Cowen: And that's why it didn't progress, because there were such basic problems with that that it was left aside. Now, whether it should or it shouldn't have been left aside and see was it possible to overcome those difficulties, I don't know, but the AG would be the best person to talk to you knowledgeably about that.

Deputy Michael McGrath: Okay. So it wasn't being seriously countenanced because of those difficulties, it wasn't seen as feasible?

Mr. Brian Cowen: That's my understanding, that's my understanding. As things in the scoping paper developed and in further discussion, this question would have been dealt with through the AG's office and that word came back that there would be real problems with that.

Deputy Michael McGrath: Okay. So when you were handing over the Department of Finance to the new Minister, Brian Lenihan, in May 2008, how would you characterise the preparedness of the Department for the looming financial crisis, which had started but it certainly hadn't reached the severity that it was going to reach in the succeeding months?

Mr. Brian Cowen: Yes.

Deputy Michael McGrath: How prepared was the Department and in what state did you hand it over to Brian Lenihan?

Mr. Brian Cowen: Well, the Department was, as I say, meeting through this group, which was co-ordinating between Central Bank, regulator, Department, AG's office and others. You know, there was a co-ordination mechanism there to go through the various options. That was ongoing when I left. There wasn't a crisis at that point. As I say, there was a continual watching brief on liquidity issues for the previous eight or nine months and people were getting through that reasonably well. We hadn't developed into crisis proportions at that stage. If you look at even May and June in terms of the liquidity that was being provided to the system, in June, it was of the order that had been maybe some months before that, so, it didn't ... it wasn't, sort of, an incremental worsening, it was, sort of, a ... it was manageable, it appeared, and then in the autumn, it became not manageable.

Deputy Michael McGrath: Okay. And, the nature of the handover to Brian Lenihan - we have read the briefing papers he was given from the Department of Finance. Had you any other message for him, in taking on the reins in the Department, as to what you felt the key risks were at that time?

Mr. Brian Cowen: Yes, I ... well, I discussed with Brian, generally, the fact that he was ... he had been given the job, and, you know, there were challenges there, obviously, and we were going to have to keep a close eye on things as best we could, and that ... I said to him, "There are good people in there that'll brief you on the detail", and he took it from there. So, once we got into the jobs, then that was it. So I was, sort of, saying to him "Talk to your people over there; there are issues which you need to know about."

Deputy Michael McGrath: And, Mr. Cowen, in your witness statement which we got, and over the course of the proceedings today, so far, you have acknowledged some mistakes on public spending; that property tax relief should have been rescinded earlier; you've acknowledged the pro-cyclical nature of fiscal policy; the loss of competitiveness in the economy; not challenging the consensus of a soft landing enough; that the construction sector grew too large. A charge that has been put to you many times is that you mismanaged the economy. How do you respond to that charge?

Mr. Brian Cowen: I respond to that charge on the basis that you had practically full employment throughout my time there, we had growth rates of 4.5%, we had a lot of investment in public infrastructure, which has been a critical part of the recovery process that we have now. But those ... I've explained to you what the economic philosophy was in the earlier session, which I don't have to repeat, and I think those are very plausible positions based on what the medium-term outlook for the economy was. There is no economic ... there is no Minister for Finance that I know of in the developed world who can say, in the aftermath of this crisis, that he was able to come back with a situation where he didn't have to make serious changes to his budgetary strategy. I mean, that's patently obvious. No pre-crisis budgetary strategy survived this crash. And, you know, I don't accept that there was a mismanagement of the economy by us. Certainly there was challenges to the system, there were issues that we had to deal with. People can have their criticisms of it, if they wish, but there is a very plausible and clearly understood philosophy and policy position behind what we were trying to do, and it was being done successfully, and had, you know, absent this thing ... this crash happening, I think you would have seen, over a period of years, an adjustment that would have enabled us to continue on, albeit everyone recognising that the long-term growth potential of the economy would never be what it was in the halcyon days of the Celtic tiger.

Deputy Michael McGrath: Thank you.

Chairman: Thank you, Deputy McGrath. Deputy John Paul Phelan, 25 minutes.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Mr. Cowen. I want to start again with the document that Deputy McGrath referred to ... in Vol. 4, beginning on page 3, it's a 21-page document. "Confidential" is written on top, "Financial Stability Issues - Scoping Paper". First of all, were you involved in discussions around that particular document at that time?

Mr. Brian Cowen: No, that's an official document drawn up by officials themselves under the aegis of that group.

Deputy John Paul Phelan: And would there ... would you have been presented with any report, oral or written, as to what was being considered in that document?

Mr. Brian Cowen: Mr. Cardiff would have been the guy, my point man, on that.

Deputy John Paul Phelan: Okay. So, you would have had some discussions with him about it?

Mr. Brian Cowen: He would keep me informed, generally, on what was happening.

Deputy John Paul Phelan: Okay. Because I was writing as you were speaking, and you said, "There wasn't a realisation that there could be a systemic risk." And I want to ask you to turn to page 5, the bottom ... the last paragraph, on page 5. And I'm going to quote it directly, it just says-----

Mr. Brian Cowen: Volume, sorry?

Deputy John Paul Phelan: Vol. 4-----

Mr. Brian Cowen: What page now?

Deputy John Paul Phelan: Vol. 4, page 5, bottom, last paragraph on the page.

Mr. Brian Cowen: Sorry, go ahead.

Deputy John Paul Phelan: I will quote it to you anyway, Mr. Cowen. It says, "...in circumstances that there may be specific concerns regarding the position of the financial system as a whole in Ireland, on account, for example, of its dependence on property-related lending". How does that square with your statement that there wasn't a realisation, which you've just said and you said it several times, in fairness, in answer to Deputy McGrath, that here wasn't a realisation that there could be a systemic risk?

Mr. Brian Cowen: As I understand it, what they were saying there was that if there was a hard landing, we'd have a problem - the prospects of a problem. We didn't know we were going to have a hard landing at that stage.

Deputy John Paul Phelan: You said, and I don't want to keep repeating it but I'd like an answer.

Mr. Brian Cowen: I heard what you said and I've answered you but I'm saying the interpretation you are putting on that sentence from page whatever it is, although it's not in front of me, is that it's saying that if there was a hard landing, we would have to consider what impact that would have on the system. We didn't have a hard landing at that stage.

Deputy John Paul Phelan: We had a hard landing very shortly afterwards and you were the Minister for Finance.

Mr. Brian Cowen: A lot changed in autumn of 2008.

Deputy John Paul Phelan: Absolutely and we'll come to that the next day. I'm really trying to, I suppose, emphasise the point that you said that there wasn't a realisation that there could be a systemic risk and this document which you say you had some discussions with Mr. Cardiff about says in several places, particularly at this point, that there could and it was being examined-----

Mr. Brian Cowen: In certain circumstances, there could be. I'm just making the point to you and I think it's consistent with the evidence you have heard from Department of Finance people who have discussed this with you, that the emphasis was on ... for a good while of the preparations were on the basis of a specific institution having a problem, rather than the whole system having a problem. Now that may have been a mistake or that may have been an error or that may have been whatever, but that was the thinking that was dominating their approach.

Deputy John Paul Phelan: But this document refers in several places to the system, not just to specific institutions. That's the point and I'm not going to labour it because I think you have answered it. During this period, by the way, and during your time as Minister for Finance, how often would you have been meeting with the Governor and the regulator?

Mr. Brian Cowen: I have made the point. My meeting with the Governor was usually on the basis of quarterly bulletins. You'd meet the Governor maybe six or seven times a year.

Deputy John Paul Phelan: Was this particular concern either of a systemic or of a singular institution failure ever discussed at any of those meetings?

Mr. Brian Cowen: No, they were more in relation to the quarterly bulletins and the reports. They were more economic but I mean-----

Deputy John Paul Phelan: And with the regulator, were they ever discussed?

Mr. Brian Cowen: No.

Deputy John Paul Phelan: Okay. I want to ask you now in relation to the evidence of Mr. Cardiff when he was here. I think it was a couple of weeks ago when he spoke about this. He said: "There were also significant external voices who had been expressing support for a broad guarantee or something like it at various points in time between March 2008 and the guarantee itself." We can only go up as far as May 2008 now. Who were those significant external voices that you think he was referring to? Was it some of the people whose names you've-----

Mr. Brian Cowen: I don't know. You'd have to ask Mr. Cardiff and I presume you did.

Deputy John Paul Phelan: We did, we did, indeed, and you've referred to some of them in some of your earlier testimony today, in particular, Mr. Gray who ... Again, we can't cover the night of the guarantee but we know you spoke to him on that particular night but we'll come to that later. Mr. Gray was, and I believe still is, the head of Indecon consultants. You appointed him to the board of the Central Bank and the Financial Services Authority on 2 January 2007. You also appointed his company to conduct a review of the property-based tax incentive schemes that you have outlined earlier on. Can you understand from the point of view of the general public that there was perhaps a conflict of interest, that Mr. Gray was somebody who was giving you some, sort of, advice in your term as Minister for Finance and as Taoiseach, and that he was appointed by you to the board of the Central Bank and that your Department were hiring his business to conduct reviews of significant things like the property tax incentive schemes.

Chairman: The question is made. Mr. Cowen?

Mr. Brian Cowen: I don't see what the issue is here. The question of Indecon consultancy - it's a reputable economic consultancy firm - they tendered for work with the Department regarding these reports and they got it. I'd no involvement in who got the tenders ... or who got the jobs. That's not my job. There's a public tendering system for all that, that deals with that.

Deputy John Paul Phelan: You did have a role-----

Mr. Brian Cowen: And the fact that he knows me, or had known me, is not a contaminant factor in tendering for work. And a lot of the work that he has done for Government down the years, of all persuasions, has been high quality, from what I understand.

Deputy John Paul Phelan: I'm not questioning that, Mr. Cowen. I'm just questioning that he was-----

Mr. Brian Cowen: So I wonder why it is then that you suggest that there's some problem ... why the public would have a problem with that.

Deputy John Paul Phelan: Was he an adviser to you in your time as Minister for Finance?

Mr. Brian Cowen: I didn't have-----

Deputy John Paul Phelan: Was he somebody that you-----

Mr. Brian Cowen: I didn't have an adviser.

Deputy John Paul Phelan: No, was he somebody that ... I'm not saying an official adviser, but was he someone that you had conversations with and sought his-----

Mr. Brian Cowen: He's a person ... yes, he's a person from time to time whose advice I would ... or have a discussion with him about various general macroeconomic issues to get ... to get an outside view. Totally legitimate and proper, in my opinion, for any person to do that.

Deputy John Paul Phelan: And you thought he would be a suitable appointee to the board of the Central Bank and the regulator?

Mr. Brian Cowen: I think ... I think it was welcomed that he ... a person of his calibre was appointed.

Deputy John Paul Phelan: Okay. I now want to turn to a meeting from your diary which I ... was released under FOI, which took place on 14 February 2008, where you're recorded as meeting with Mr. Eugene Sheehy, former chief executive of AIB, alongside the Secretary General of the Department at the time. 14 February 2008. Do you recall why that meeting took place and what discussions were had at that particular meeting in February of 2008?

Mr. Brian Cowen: No, usually what happened ... well, this may have been the case in this case, if Mr. Sheehy was in the Department on business, or whatever he was doing, sometimes he would ... it would be ... the secretary would write ... ring down to my office and say, "Would you like to meet this gentleman for a few minutes? He's in the building", or whatever. And I'd say, "Fine" and I'd go out to my office and ... beside my main office and talk to him about a few things. It'd be generally economic issues or broad issues. I don't recall-----

Deputy John Paul Phelan: Specifics?

Mr. Brian Cowen: -----discussing specific banking issues with him, to be honest.

Deputy John Paul Phelan: Okay. One month later, the so-called St. Patrick's Day massacre occurred. Can you recall from that meeting or, indeed, from any other similar meetings that may have taken place around that time, any forewarning or any discussion as to the vulnerability of different institutions, including Anglo, to such a shock? Okay. You were in Vietnam, you outlined it earlier on, and Malaysia I think it was, on St Patrick's Day business when the St. Patrick's Day massacre took place. You're quoted in the *Irish Independent* on 18 March 2008 as saying, "This is an international development as opposed to a local development." When did you ... or did your view change over time that this development may have had some roots locally rather than just internationally?

Mr. Brian Cowen: I think what I meant there was the context of this was that the confidence of ... in the banking system generally by the tightening of liquidity was causing problems in a lot of places, it wasn't just an Irish phenomenon. I think that's what I meant by that comment.

Deputy John Paul Phelan: And did your ... did your view change?

Mr. Brian Cowen: No, it remained ... it remained both an international problem and a domestic problem ultimately.

Deputy John Paul Phelan: In that particular statement, though, you weren't acknowledging that there was any local ... that's the point I'm trying to get at. You were saying it was an international issue, pretty much, as opposed to a local development. That's the quote. Did you thinking amend at any stage?

Mr. Brian Cowen: No, I was ... I'm just trying to recall the context in which that might have happened. I was abroad at the time. I mean, my thought process was about that there was a banking confidence issue right across the developed world developing. It hadn't got to crisis proportions but it was developing. And there was some indication, without referring to it, that there was activity going on on share prices, etc., that was affecting the confidence of the bank because of these shorters that were involved in short-term activity that is never to the benefit of the institution that they're dealing in.

Deputy John Paul Phelan: I want to turn now to ... again, an issue that was touched on by Senator D'Arcy and Deputy McGrath earlier. On the Dáil record in 19 January 2011, you acknowledged that meeting that took place on 24 April 2008, one of your final events, as you said, as Minister for Finance, where you attended that dinner as a guest of the board of directors of Anglo. I'd just like to get maybe a bit more detail from you as to what the purpose of it was. Why were you invited? Before you went, what impression did you have as to what the purpose of the meeting was? And at the meeting in question, or at the dinner in question, what was discussed? You said there wasn't any formal speeches, but the implication from that was that there was informal discussion, which you'd expect, and I would assume it was about banking issues. So, can you outline?

Mr. Brian Cowen: I wasn't ... I mean the point I was making is I think I've explained earlier, I was told that I had never met these people during my time as Minister; they had never met me, and they'd like to have dinner to recognise the fact that I had been Minister for a number of years. And I said it might be discourteous of me not to go. I said, "Fine, I'll do that. When is it"? It's on at ... whenever it was, Tuesday or Wednesday evening, some time at eight o'clock, I said "Okay, I'll see you there. Where do I go in and what do I do? And we'll go up and see them."

And there were some people I knew already. I knew Gary McGann from his time as chief executive of Aer Lingus, now with Smurfit Kappa, he was certainly a person I knew. I don't know who else I knew up there but that's one person I can recall I knew, anyway. I knew Mr. FitzPatrick. I'd met him three or four times in my life at various bank federation things or something like that. He was a well-known figure, obviously. I'd never met the chief executive. I met him that night and I never met him since. And the others ... some of the others I wouldn't know. There was some people who weren't from ... there was a lady there from America, I think, who was a board member. And it started, now it was a sit down socialising and talking away informally, and then at some stage in the proceedings in order, I suppose, to show the meeting had ... wasn't about ... you know, it was about something, was someone gets up and says a few things about the Anglo Irish Bank and what it's doing and the size of it and all the rest of it, you know, and that's about the size of it. I took notes. I wasn't given any documentation; I didn't take any briefing. I was thinking of other things at that stage, heading away home.

Deputy John Paul Phelan: Mr. Drumm has alleged after the dinner in question, that arising from it, and I presume from discussions that he had with you, that he asked you to ask the NTMA to put deposits into the ... into Anglo. Are you aware of that allegation, I suppose, first and-----

Mr. Brian Cowen: I've seen ... I've seen that in the paper, and I think what he's referring to there is a conversation he says he had with me, and I was sort of saying "Well is that not done already", because I was thinking back to this question of the letter that was sent out in January, was that not going ahead or was that not happening. And I obviously misunderstood, because that's what I thought he was referring to. And that was it, essentially. Sin é. There was no more about it. I didn't follow up on it or discuss it with anyone.

Deputy John Paul Phelan: You didn't ... just to get clarification ... you didn't make any representations or did you to the NTMA as to putting deposits into them?

Mr. Brian Cowen: I didn't because I then, probably, went back into the Department and said, "What's the story about all this? Is that happening?" And they say, "Yes, that's happening", so it's the end of it. You know, I didn't have to do anything about it.

Deputy John Paul Phelan: Did you ever make any representations to the NTMA between the collapse of Northern Rock and the end of your tenure as Minister, to put more additional funds other than the ones that we've already discussed into any of the domestic banks?

Mr. Brian Cowen: I don't believe so.

Deputy John Paul Phelan: Okay. In 2011, when these allegations surfaced, Dr. Somers of the NTMA denied that you had put him under any pressure as alleged by Mr. Drumm in 2008. But he did say that in late 2007 there was some pressure at official level to put deposits into the Irish banks. Do you know of such pressure having taken place or being applied?

Mr. Brian Cowen: I don't. I wasn't. I didn't.

Deputy John Paul Phelan: Would it be-----

Mr. Brian Cowen: I wasn't at any NTMA meetings, you know.

Deputy John Paul Phelan: But would it be ... he was implying, or no, more than implying - stating, that officials of the Department ... official level, so either officials of the Department or people from Central Bank were putting pressure on him to do this. Like, would it be common practice that, I presume, senior officials - if they were dealing with Mr. Somers himself - would be taking such actions without the knowledge of the Minister for Finance?

Mr. Brian Cowen: I'm surmising but, I mean, the Secretary General of the Department, I think was a member of the NTMA board, wasn't he? So there would be discussions coming up at NTMA board level I presume. And I suppose the NTMA would ... if you're a member of the board, you're entitled to voice your opinion as to whether you think the bank is overreacting about not putting some money into a bank when it seemed, on any objective basis, that there was no danger relating to this money going in for the short term that it was going in for, why would people be saying, "No, we won't put it on"? So I eventually was asked to ... obviously, that came up and it must have been in that context ... I'm only surmising, I can't recall, you know, I can't ... I don't know for a fact - it makes sense, it's logic, that what would happen then is that they say "Well, why don't you do that?" And the chief executive says, "Well, you know, unless I get a written instruction from the Minister, and I'm independent, I won't be doing that." So he has to come back to me and say, "Would you ... we think you should ... maybe you should add that, just for the purpose of ensuring that no one reads something wrong into this that needn't be read into it." And if that's what they wanted me to do, I'd have no problem doing that. So that's about the size of it.

Deputy John Paul Phelan: Okay. I want to ask you now, Mr. Cowen, if you ... in your opinion, did the Department of Finance have the necessary expertise to produce its own economic forecasting reports and if so, did you give equal weight to internally-produced reports and externally-produced reports from sources like the ESRI and the IMF and the OECD in your time as Minister?

Mr. Brian Cowen: Well, they did have this capacity, obviously. I mean, of course the Department of Finance have that capacity and would claim that over a long period of time, as I was saying in the earlier session, they were as accurate as anyone else, if not better than most. If you look from '97 to '07, it's sort of a little bit of a competition, I think, between all these forecasters to see who gets it right most often or who's the closest to the actual outturn. But you'd look at all of this. As I was saying at an earlier session as well, you know, based on examining the same data, they usually converge around an area of difference that's not huge one way or the other and you'd ... they would then, having looked at all the outside data and their own internal assessment of the situation, they would come and say to me "Look, we think you put it into your budget that we're going to grow 4.5% next year instead of 4.25%." I'd say, "Fine, if that's what you think, we'll run with that."

Deputy John Paul Phelan: Finally-----

Mr. Brian Cowen: It's a technical exercise.

Deputy John Paul Phelan: Okay. I want to turn to the question this morning from Deputy Higgins about funding, political funding. You said that you were not personally beholden, or words to that effect, to any property interests but do you believe that your party was, before you became ... in the period before you became leader, personally beholden?

Mr. Brian Cowen: I was never at a policy meeting of my party where someone said "We have to do this because that's the view of the property industry." Never.

Deputy John Paul Phelan: You stated on the record that around 80% of funding for Fianna Fáil at the time would have been coming from personal donations and I think you mentioned national collections and draws and things like that from individuals.

Mr. Brian Cowen: In terms of yearly revenue, that's what ... that's how it raises ... that's how it raises its money. At election time or in preparation for election, as you know, you have to go through the regulatory arrangements to try and get money that way.

Deputy John Paul Phelan: Well, we had an extensive presentation from Dr. Elaine Byrne in one of our very early sessions in the inquiry who ... she ... the document is J3582, document 7. It's her statement to the inquiry.

Chairman: Can you give me the reference numbers again there, Deputy?

Deputy John Paul Phelan: Yes, it's J3582, document 7.

Chairman: Okay.

Deputy John Paul Phelan: Where she outlined an analysis that she had conducted of the Standards in Public Office Commission's declarations of donations. And it was from 1997 to 2007, so it was the period that we're discussing and a bit before that ... where she outlined that 35% of donations to Fianna Fáil were from ... and I want to quote it correctly, "property and construction interests", €635,970; 34% of funding to the Progressive Democrats, at the time, was from the same quarter, whereas there was no declared donations from any other political party at that time from the property and construction sector.

Mr. Brian Cowen: Was that to the party or to individuals?

Deputy John Paul Phelan: It's ... it's to the party, but it's a ... a culmination or an aggregate ... it's an aggregate. I'll read her full statement here:

> That Fianna Fáil candidates were the beneficiary of more disclosed donations than candidates from other parties is not surprising because [proportionately, they had more candi-

dates running] ... Of the 466 [she gave this as an example] candidates that ran in the [election in 2002], 22 per cent were from Fianna Fáil. Nonetheless, during that election year, Fianna Fáil received two-thirds of all ... funding disclosed which means that candidates from that party were in receipt of seven times more disclosed donations than a non-Fianna Fáil candidate.

Mr. Brian Cowen: The candidates received this money-----

Deputy John Paul Phelan: Yes.

Mr. Brian Cowen: -----it didn't come to party headquarters.

Deputy John Paul Phelan: Yes. That's-----

Mr. Brian Cowen: Well, that's my point.

Deputy John Paul Phelan: It's an aggregate of ... of the candidates.

Mr. Brian Cowen: No, it's to the candidates, Deputy. I'm talking about party headquarters. I don't know ... I don't know what the standard in public office has for every TD, you know, that's a matter for themselves. If people know local guys who want to contribute to the party, that's fine, and if they declare it, that's totally legal and above board. The party headquarters I'm talking about.

Deputy John Paul Phelan: That's okay. No, I just wanted to clarify.

Mr. Brian Cowen: That's a clarification, so it's not at variance with anything else, it's just my-----.

Deputy John Paul Phelan: The full breakdown for the information of the inquiry, it's on page 11 of her opening statement: 35% of donations disclosed to Fianna Fáil between 1997 and 2007 were from property and construction; 20% from other business interests; 13% from individuals; 9% from the hotel sector; 5% from banks and financial services; 7% from the motor industry; and another, I think, 11% between other professional services and other business donations.

Mr. Brian Cowen: Just to clarify, finally, it's not really relevant ... it's not really relevant, one way or the other, anyway. The point is ... in relation to party headquarters they raise funds through elections, they do that through a certain process and we do that, it's all audited and available if anyone wants to look at it. As regards how are party is run, it's a voluntary organisation in terms of its membership and it has a national collection every year. And those ... that's the ... that's the basic means by which the party raises funds for its day-to-day operations.

Deputy John Paul Phelan: Do you believe that the fact that 35% of funding for Fianna Fáil candidates in that period was coming from the construction and property sector had any bearing on their opinions, their views as to decisions that Government would make at that particular time with regard to the property and development sectors?

Mr. Brian Cowen: No, I'd have no idea one way or the other. I don't know, it's a pure speculative question. You'd have to see, first of all, were any of them a member of the Government. Were they?

Deputy John Paul Phelan: They were ... it's aggregated Fianna Fáil candidates. They were all members of the Government-----

Mr. Brian Cowen: Yes, so you're asking me ... if Government was making a decision-----

Deputy John Paul Phelan: -----and they were-----

Mr. Brian Cowen: If Government was making a decision and they weren't a member of the Government what's ... what's it got to do with them?

Deputy John Paul Phelan: Would ... would other members of the parliamentary party not have an influence on decisions? When you were a Minister did you ever listen to an opinion from a backbencher or a Senator?

Mr. Brian Cowen: Oh, of course, Deputy.

Deputy John Paul Phelan: I would have thought so.

Mr. Brian Cowen: Of course.

Deputy John Paul Phelan: Thank you.

Chairman: Okay. Thank you very much. Senator Marc MacSharry. Ten minutes, please, Senator

Senator Marc MacSharry: Thanks very much. Who would make the final decisions for budget day?

Mr. Brian Cowen: When I was Minister, I made the final decisions on certain matters. You'd obviously do the courtesy of speaking with the Tánaiste and the Taoiseach beforehand and then on the morning of the budget you would outline what your full budget was to your Cabinet colleagues.

Senator Marc MacSharry: Did the Taoiseach need to approve it?

Mr. Brian Cowen: Constitutionally, he doesn't have to approve it but it's usually good if you're a Minister for Finance to be on the same wave length as your Taoiseach It helps.

Senator Marc MacSharry: In practice, is that what happened or-----

Mr. Brian Cowen: It helps your tenure.

Senator Marc MacSharry: In practice, is that what happened?

Mr. Brian Cowen: Yes.

Senator Marc MacSharry: Okay. In that context, can you remember how the decision to abolish stamp duty for first-time buyers in 2007 was reached?

Mr. Brian Cowen: It was reached, as I said earlier, in the context of an election campaign where other parties were going way beyond what I though was responsible. We were required to address the issue. And we addressed it in a consistent way, as we did before, because we said "We will make a provision that will be of assistance to first-time buyers only but not generally."

Senator Marc MacSharry: Did you offset the reductions that were going to be foregone as a result of first-time buyers and increases in commercial or other properties?

Mr. Brian Cowen: Not ... I don't ... I can't ... I don't think so.

Senator Marc MacSharry: And what were ... what was the lobby at the time? You were saying there were others lobbying for other issues?

Mr. Brian Cowen: Look, there was an election going on. There was an area of policy here that others were saying they wanted to do this, that and the other. I felt it was gone too far ... was going too far. And obviously, I was asked, "Are there areas that we can do to assist here?", and I said, "We'll do something that's consistent with our policy position always and that is support first-time buyers only."

Senator Marc MacSharry: So-----

Mr. Brian Cowen: -----and that became the policy.

Senator Marc MacSharry: Were their people looking to abolish it at the time?

Mr. Brian Cowen: No, not in my party.

Senator Marc MacSharry: Oh, no ... the general discourse, the people that you meet ... CIF, you mentioned back ... the banking federation-----

Mr. Brian Cowen: Well, we ... you recall back in '06, you know, such was the buoyancy of our public finances at the time, believe it or not, there were some people suggesting that we could run the country without having any receipts for stamp duty at all. How considered that position was, I think, is open to question and I'm not suggesting it was a final considered position of anybody but it, certainly, was put into the public domain as a possible option, which I never saw as a runner at all.

Senator Marc MacSharry: Notwithstanding your wish to look after first-time buyers in the context of the election in 2007, did you see it as a counter-cyclical tool and did you use it as such?

Mr. Brian Cowen: No, it wasn't in that ... it was really about trying to assist people who were having continuous difficulty trying to get on the property ladder. And the only way you can do that is to discriminate in their favour as against other prospective purchasers.

Senator Marc MacSharry: As I asked Mr. McCreevy yesterday and all of the secretaries of the Department, current and former - I think we know the answer, but just for the record - can you outline for us how many, if any people, lobbied you in your time in Finance to spend less and tax more?

Mr. Brian Cowen: I can't recall that being a very big crowded room.

Senator Marc MacSharry: Was there anyone in it?

Mr. Brian Cowen: Apart from myself, no.

Senator Marc MacSharry: Okay. The ... on the issue of a soft landing, among Cabinet colleagues, was there any contrarian views? Was there any Cabinet colleagues who were saying, "We have concerns here", or, "I have concerns here"?

Mr. Brian Cowen: I don't know is it possible for me to talk about Cabinet discussions?

Chairman: Matters of the Cabinet are covered by Cabinet confidentiality and even if you wanted to co-operate, I couldn't allow you to commit an offence, Mr. Cowen. But you could talk about general ... sometimes a discussion happens in Cabinet and people drift out to the corridor and they continue talking, you can certainly talk about those things.

Mr. Brian Cowen: Things always got very silent once the Cabinet meetings were over. People were busy heading back to their Departments.

Senator Marc MacSharry: So "No" is the answer, is it?

Mr. Brian Cowen: Obviously, no ... I think where you have any ... where you have 15 elected political operators sitting down in a room, there'll be varying points of view, but you go to the central ... what's the central position. And usually the central ... you know, the Central Bank could come up in the context of ... where Central Bank reports would be on the Cabinet agendas, even for discussion or just for noting or whatever, and you would outline what the central view is and talk about the risks up and down, the people have various views on that, but, at the end of the day, no, there was no contrarian view, which says, "None of this is correct."

Senator Marc MacSharry: Did ... you were very clear in your account of any dealings you had with Anglo and Mr. FitzPatrick and so on. Again, were there any Cabinet colleagues that were advocating a position that NTMA money should be-----

Mr. Brian Cowen: No.

Senator Marc MacSharry: -----put into Anglo?

Mr. Brian Cowen: No.

Senator Marc MacSharry: In terms of ECOFIN and other meetings that you would attend in Europe in your role as Minister for Finance, what was the discourse there? Did you discuss the fact that liquidity was being monitored, that there was an impact as a result of what you may have deemed to be a local issue in terms of CFDs and Mr. Quinn in Anglo or ... what was the conversation to do with Ireland and banking and liquidity around these meetings?

Mr. Brian Cowen: What happens at a Eurogroup meeting on the Monday night or at the ECOFIN meeting to the wider 27 on the Tuesday morning is that the president of the European Central Bank would give the view of the bank in relation to monetary and other issues and explain what was happening. They usually looked at things in a very much an international context in terms of global imbalances between themselves and the dollar area and the Chinese yuan situation. Very generalised comment. As I say to you, communicating formulaically because every ... any change of a sentence from a previous month could give a ... send out a signal that mightn't be correct, you know, that's a very ... central bankers speak in very coded language. Mr. Trichet at the same time would ... I'm not trying to be facetious, I mean obviously you'd know what the man was talking about, but that was his role in it. The Commissioner, the EU Commissioner would be there to discuss EU economic issues generally, speaking on how the European economy was going, also in relation to the Eurogroup measures at that time, during my time as the Minister, there was review of the Stability and Growth Pact going on. Unfortunately it wasn't about tightening the pact but trying to accommodate those who were in excessive deficit procedure. We were seen as one of the best in class. We met the central criteria more successfully than anyone else bar maybe Luxembourg.

Senator Marc MacSharry: In the winter to spring of 2008, in the European context, were any colleagues, either ECB people or Mr. Trichet himself, questioning with regard to Anglo in particular in terms of liquidity?

Mr. Brian Cowen: No, the discussions at European level related to the European banking system, you know, national issues are not ... were not raised or discussed there. They would be indicating what ... what ... to what policies, or what they had in their toolkit, these long-term monetary operations where they were pumping in liquidity into the system as required, indicating a preparedness to do that, all this, sort of, discussion.

Senator Marc MacSharry: That would be in the meeting, but in the lift, on the sidelines, "How are things going with Anglo?", any of that kind of talk?

Mr. Brian Cowen: Not to the forefront of other people's minds at all I think.

Senator Marc MacSharry: Okay, thank you.

Chairman: Thank you very much, Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat agus go raibh maith agat arís. Can I ask you, in your opinion was the Central Bank or the Financial Regulator, sorry, was it the Central Bank or the Financial Regulator which was responsible for the systemic impacts caused by individual institutions during the period of 2003 to 2008? Which one was it in your opinion, the Central Bank or the Financial Regulator?

Mr. Brian Cowen: To deal with an individual institution?

Deputy Pearse Doherty: Which was responsible for the systemic impacts that caused ... that were caused by the-----

Mr. Brian Cowen: Well, the way I'd read that as happening under the Act would be that the individual institution's problems would come to the attention of the Financial Regulator and if they were systemic, he should inform the Central Bank Governor.

Deputy Pearse Doherty: Were those roles clearly defined?

Mr. Brian Cowen: I believe so. I don't believe ... I mean that's the way it was supposed to work; you dealt with ... you know, you've something that needed just an administrative sanction within an individual institution, that would presumably stay within the regulator's office, but if there was something where there was a major problem that was going to have some, sort of, systemic ... you'd be picking up the phone saying, "Governor, this has come to our attention, it may have wider stability-----"

Deputy Pearse Doherty: Did that happen during your time?

Mr. Brian Cowen: During my time as Minister?

Deputy Pearse Doherty: Yes.

Mr. Brian Cowen: I was never told at any time that the financial stability of the State was at risk, no. There was ... there were-----

Deputy Pearse Doherty: But you were doing planning for the financial stability, the risks like-----

Mr. Brian Cowen: Yes, that contingency work was going on but you're asking me did the Governor ever ring me to say, "We are in systemic risk". No.

Deputy Pearse Doherty: I presume it's like ... did the Governor have a ... yes, okay. Okay, can I ask you Mr. Cowen, the banking inquiry's invited a number of property developers, including Michael O'Flynn, Sean Mulryan and Derek Quinlan to give evidence before the committee. Have you been in contact with any of these developers in any form in the last number of weeks?

Mr. Brian Cowen: No, talking to them about this? No.

Deputy Pearse Doherty: Have you been in contact with them in any form?

Mr. Brian Cowen: I happened to meet Mr. Mulryan socially three days ... what day is today? Tuesday ... Thursday. Four days ago.

Deputy Pearse Doherty: And did you discuss that you were coming-----

Mr. Brian Cowen: No. No, no, nothing about this stuff.

Deputy Pearse Doherty: And was it just a casual-----

Mr. Brian Cowen: Yes, it was a social occasion, I happened to meet him.

Deputy Pearse Doherty: Okay, and there's been no discussion in relation to the fact that you and he are coming before the banking inquiry?

Mr. Brian Cowen: No.

Deputy Pearse Doherty: Okay, Mr. Cowen I'd like to ask you in relation to the share price collapse in March 2008 and the fact that the Irish Nationwide Building was frozen out of wholesale markets and ECB funding at the same time, and the widespread knowledge that was there in the financial markets of the over-exposure to Irish banks to commercial property. So given those three factors, were you aware of those three factors, first of all is the question, were you aware that there was a financial institution in the spring of this year, 2008, that was frozen out from wholesale and ECB markets? Were you aware that the share price had collapsed in Anglo Irish Bank in March 2008? And were you aware that there was widespread knowledge in financial markets of the over-exposure of Irish banks to commercial property, and particularly, certain institutions?

Mr. Brian Cowen: Well, as I say, I was out of the country when this occurred, but I was aware, obviously, that this had happened in the share price. I took a call from the chairman at the time, I referred him down to the regulatory authorities. I told the Governor to make sure that a meeting took place so they could get to the bottom of it and see what was going on. I was aware of all that and I was aware that Anglo Irish Bank had taken a hit through the share price fall, yes.

Deputy Pearse Doherty: Were you aware of the over-exposure of individual institutions to property?

Mr. Brian Cowen: No, I mean, at that point, as you know, the question ... the situation there at that point was that, whilst they all had various business models, the overall view from the regulatory authorities was that they were well capitalised.

Deputy Pearse Doherty: Yes, that's not the question in terms of the capital, their capital position, it's in relation to over-exposure to property. Were you aware that certain banks were over-exposed to property?

Mr. Brian Cowen: No I wasn't.

Deputy Pearse Doherty: No? And when the *Financial Times* were writing, for example, around St. Patrick's Day about Anglo Irish Bank and its over-exposure to property, were you just unaware that the *Financial Times* were writing articles of that nature?

Mr. Brian Cowen: No, I mean, I knew they were, I knew there were views of its business model, as I was saying to you, but I wasn't aware of the detail of what the exposure would be in their banks.

Deputy Pearse Doherty: Did you believe that they weren't over-exposed to-----

Mr. Brian Cowen: I didn't know, I mean I was, I didn't know what their exposure was.

Deputy Pearse Doherty: Did you at any time seek to find out, as Minister for Finance?

Mr. Brian Cowen: What I did was, when you speak to the Central Bank Governor and the regulator's office, and you speak to your own officials, they say that the view of the authorities is that the Irish banks are well-capitalised, that they are in a position to have buffers to deal with some of these situations if they arise.

Deputy Pearse Doherty: Yes. Again, not talking about the capital position of the bank, but talking about their over-exposure to property and commercial property, did you at any time ask your officials, the Central Bank, the regulator, given the fact that very influential commentators on the likes of the *Financial Times*, others in terms of other banks, were advising people to sell their shares in these institutions as a result of over-exposure of property? Did you at any time lift the phone to anybody, have a conversation with anybody, saying, "Could there be any suggestion?", or, "Could this be true, that some of our banks are over-exposed to property?"

Mr. Brian Cowen: Obviously the regulatory authorities were interfacing with the individual Irish banks all the time, and I keep emphasising that they are independent. I never politically interfered in that work. I always asked my officials, they kept me briefed on what was going on, and there was a view that, you're saying capitalisation isn't relevant, but it is relevant if there's an exposure that turns out to be crystallised - have you got capital as a buffer to deal with it? Yes.

Deputy Pearse Doherty: Of course, it's relevant, but-----

Mr. Brian Cowen: That's the point I'm making.

Deputy Pearse Doherty: Yes, and I appreciate that.

Mr. Brian Cowen: And if you get an assurance that there's a capital adequacy issue, that they're all in good shape that way, that's a matter for them to have to manage as they go through the cycle.

Deputy Pearse Doherty: Mr. Cowen, we now know, I think we can determine, although the committee will be making its findings at a later stage, but I think the Irish public have made up their mind that certain financial institutions were over-exposed to property lending. The question I'm asking again is did you ever ask anybody, lift up the phone, ask your officials, based on what was being written about in the media, written by commentators, particularly very influential financial commentators, and other institutions who were advising their clients to sell their shares in these banks because of their over-exposure, did you ever ask the question, "Are some of our banks over-exposed?" And if you did-----

Mr. Brian Cowen: I asked a view, obviously, as to what was the view of the situation in our banking system in spring of '08. And the view was, having consulted with the authorities, that we had a well-capitalised system. And, therefore, if the emphasis was on making sure there was liquidity for the system to deal with the issues, and if there are things that come up, where impairments or something increase, or something, have they sufficient capital to deal with that situation?

Deputy Pearse Doherty: For you, Mr. Cowen, when was the moment when the penny dropped, where we have institutions that were over-exposed to financial ... to the property sector? When was that, what period was it, what period of time was it?

Mr. Brian Cowen: It was the autumn, when you see what ... after the Lehman's situation things got very difficult, and you start to say to yourself, "Where's the confidence for the system anywhere here?"

Deputy Pearse Doherty: That's the autumn of 2008? So, up until autumn of 2008, are you telling the committee that you did not believe or you didn't have a knowledge that some of our financial institutions were over-exposed to property?

Mr. Brian Cowen: I was aware ... Look, I was aware that obviously there was ... you know, there were property investments made and that these were banked in Ireland. I wasn't aware of the individual situations or the people that were involved specifically. I don't know that business. I don't know people's business, in that sense. But it wasn't the view that there was going to be such a problem that there was no way that people were going to be able to deal with it within the capitalised structures that they had. That was not the view at the time because the value drop came later on in the year-----

Deputy Pearse Doherty: It's not ... it's about the over-exposure and not ... and it may never have materialised if property prices kept on going up for a couple of years. But, no, that's fair enough, if you weren't aware of it until autumn of 2008. Can I ask you in relation to the dinner you had with the board of Anglo on 24 April? You mentioned that you didn't take any notes; you say that there was ... you didn't take any briefing. Is that briefing from Anglo or briefing from your officials or-----

Mr. Brian Cowen: Briefing from officials. I was just going to what I regarded as a social occasion on my way home on that night.

Deputy Pearse Doherty: And can I ask you, just if we go to, in the committee secretariat, we go William Beausang's core documents, which is DOF 01 B02?

Chairman: Mr. Cowen, now may not have seen these, Deputy, so I'll give a bit of latitude actually on this. It's coming up on the screen.

Deputy Pearse Doherty: Okay. We'll try and get up on the screen. It's headed Tánaiste - from William Beausang, and it's a briefing, "as requested below". The briefing on banking sector issues on 24 April 2000----

Chairman: Number there, Deputy, please.

Deputy Pearse Doherty: It's DOF 03372-----

Chairman: Just be mindful now, Deputy, I just need to give you a context - why are you introducing this before we go into discussing it? What's the ground? I just have to clarify.

Deputy Pearse Doherty: No, the question I have is the briefing note that was prepared and I've already asked the question of William Beausang in relation to this. The briefing note that was prepared for the Tánaiste, for the Minister for Finance, which is dated 24 April, which coincides with your meeting with the Anglo board-----

Chairman: There, Deputy, just-----

Mr. Brian Cowen: I've no problem with it. I don't recall it ... I don't recall this.

Deputy Pearse Doherty: The suggestion ... sorry, the suggestion was that briefing note may have been for another group of bankers that you were meeting around that time but your official diary doesn't suggest it.

Mr. Brian Cowen: No, no, I'd say, I don't remember that, to be honest with you. I don't remember anyone giving me a briefing going to a meeting. You've asked me did I have a briefing.

Deputy Pearse Doherty: Okay.

Mr. Brian Cowen: I didn't bring any briefing. I'm almost sure of that.

Deputy Pearse Doherty: Okay.

Mr. Brian Cowen: I didn't bring a briefing and if it exists fine, I'm not questioning it if someone sent it me.

Deputy Pearse Doherty: Okay.

Mr. Brian Cowen: If I asked on the day, "Would you give me a view of what's ... give me a few issues here that I need to know something about or that I'd need to, you know, show some base knowledge of where Anglo is at?", fine. But, I don't recall the ... I don't recall it.

Deputy Pearse Doherty: Okay. That's-----

Mr. Brian Cowen: I may well have read it and left it on my, you know-----

Deputy Pearse Doherty: Yes, that's fair enough. Can I ask you finally this question here? Minister, you were Minister for Finance for a------

Chairman: Final question now, Deputy.

Deputy Pearse Doherty: This is the final question. You were Minister for Finance for a number of years at this point. You were within a hair's breadth of entering into the Taoiseach's offices, which are the two most important constitutionally offices in this State. You give an impression to the committee, and it's just my impression - correct if it's wrong - that this was a very informal issue: "They spoke about the bank but I wasn't taking notes, I wasn't listening." Given the fact that there was an international financial crisis, given the fact that Anglo share prices had plunged dramatically just a couple of weeks earlier, given the fact that there was serious concern in relation to Irish banking, as Minister for Finance and as a future Taoiseach a couple of weeks later, should you not have engaged more thoroughly with the board of Anglo Irish Bank, which in your evidence, was the first time that you've actually met them than the way that you presented to the committee here today?

Mr. Brian Cowen: No, I don't mean to convey that impression. I'm just making the point that I said I'd go on the basis that it was ... it wasn't a business meeting. You know, I was asked "If they haven't met you, you're about to leave the Department. They'd like to just formally meet you and you're moving on to another Department of State. They'd like just to have a meal with you and meet with you, and they've never done that". I said, "Okay, I'll do it on that basis ... I'll do it on that basis." It's not going to be a big meeting or sitting down or having-----

Deputy Pearse Doherty: The point I'm making is the board-----

Mr. Brian Cowen: I was just being ... I was accommodating the-----

Deputy Pearse Doherty: But somebody got up on behalf of Anglo and outlined the issues around Anglo, as you said, but you mentioned, "I didn't take notes and I wasn't taking any briefing." Would it not be a unique opportunity, given the financial crisis that we're at-----

Chairman: Pay attention, now, Deputy.

Deputy Pearse Doherty: -----that this is the first time you're sitting right in front of them, you may not get another opportunity, would it not be an opportunity to engage thoroughly with them at that event?

Mr. Brian Cowen: No, well, I took it from the time I went in there it was a very much a social occasion. There was, as I say, an executive who made some comments, general comments about the bank. It wasn't a business meeting, Deputy, and if it were to be a business meeting of the depth that you are talking about, it would be held in the Department of Finance with officials present.

Chairman: Perfect, thank you very much. Mr. Cowen, I just want to take one line of questioning with myself and then I propose that we take a short suspension. Mr. Cowen, the Department of Finance received many economic forecasting reports from external sources like the ESRI, Central Bank, IMF, OECD and, in turn, the Department prepared briefing notes and in some cases, speaking notes for you. So, an example of these would be coming up on the screen at the moment there now is an IMF-related document they prepared for you reported at 2003, article 5 - consultation and if you look at the employment headline there it says, ''The IMF contend that any considerable increase in unemployment more likely when the cap on public sector recruitment is implemented may have a knock on effect the housing market which could postpone the pick up in activity.''

There is another briefing document that was issued to you this, the first one is in 2003, next one is 2004 - ESRI Quarterly Economic Commentary. Once again under the housing output one there it says, ''The ESRI has highlighted the Irish economy's exposure to the high volume of house building.'' These are all, kind of, one-page documents, briefing documents.

There is another one then that comes up. This is a Central Bank quarterly bulletin - I think it's from 2005 -and the very last paragraph of that page makes mention to the bank, also expresses concern about ''the current high rate of house price inflation.'' And the last one then, is an OECD autumn report of 2007 economic forecasts and if you can move down mid-page there, it says, ''Nevertheless, the risks of the international outlook are skewed to the downside with the key risks including a more pronounced cooling of housing markets, the possibility of additional financial market turbulence, further upward pressure on commodity prices such as food and oil", and so forth.

So, as I said, these are one page briefing documents, they are issued to politicians on an on-going basis. Preparation for Leaders' Questions and such, maybe for a meeting with a Finance official, visiting delegation or whatever. When you receive these notes, Mr. Cowen, would you have knowledge of the original documents that were given to you and the substantive material behind these or did you fully rely on the notes received from the Department?

Mr. Brian Cowen: No, I'd have knowledge of the documents that back those up. Those were documents, as I say, that you'd get on an embargoed basis from the Central Bank Governor for a meeting with him. In relation to other economic documents, they'd be part of your reading material. But sometimes you'd be going out, you know, as Ministers do out to some ... to do something or to a meeting or go somewhere and you might end up meeting someone from the media might waiting to talk to you and you'd have some speaking notes as you travel to see what the story was. But it doesn't ... it's not to be regarded as a full exposition of all the nuances of what's going on.

Chairman: Okay, if I can just move on to- it's the CIF core document there, Vol. 1 and it's just the table of contents. We are not going to be going into any documents there, if I can just get it up on board. I know that, but it's ... and it's not to spring ... it's just to give a kind of mood music to statements that were happening at the time and if you move down there you'll see Dr. Alan Ahearne's article, 53-54, *Sunday Independent*, he is talking about, ''Rate rent reverses signal trouble ahead''. And we then have Dr. Ahearne going on again to say "Will the banks go bust in a property slump?" This is in around 2007. There's another statement of '07 from Dr. Ahearne, ''ECB will slay our property monster.'' Another statement, 2007, ''Time to get out of rental property'', and then again, 2005, ''What goes up often comes down'', and again, ''We are on our own if the bubble bursts.''

Now we know that Morgan Kelly had made comments and everything else, but they were earlier in the period and we know that Mr. Ahearne was appointed as a very senior official to your Administration. And when Mr. Ahearne was before this committee earlier in the year, what date was it? He was here in February 2015. He, in his second page of his statement it's the middle of the page there:

> The 2005 Fed study of the international experience of boom and bust show that, after reaching a peak, real house prices subsequently fell for about five years, on average, and the previous run-up was largely reversed. Put simply, the bigger the boom, the bigger the bust.

Mr. Cowen, this inquiry has tried to, at length, find a specific document that exists from the Department of Finance that actually presents the soft landing theory. Maybe you can help us this afternoon. Did you ever read a document that was either commissioned by you or carried out by your Department that presented its own evidence of a soft landing?

Mr. Brian Cowen: I can't recall one. There would be a general ... there would always be a general economic briefing on various aspects of policy, and whether it was their own view, or whether it was one that was vicariously taken from other research organisations, either State or private, their view was, in line with the Central Bank view, I suppose, as well, that the central position was that it was more likely to be a soft landing rather than a hard landing. That's ... that analysis, as we know, wasn't correct, but that was the view.

Chairman: What I'm trying to substantiate, because as we said earlier, you'd get all these briefing notes, and I would have got them as chair of the finance committee, I might be travelling to a Presidency ... and you get ... but there would be a core document that would come from somewhere behind it. And, as you said, you got these briefing documents for Leaders' Questions, visitations, but you were familiar with the core document that was behind it. There was a lot of commentary about a soft landing, and I'm sure you got briefing notes on soft landing and all the rest of it. But was there a core document in the Department of Finance that was evidentially based upon work that they done themselves to say there was a soft landing?

Mr. Brian Cowen: Well, that's a ... I suppose it's a question you'd have to put to them themselves. I can't recall-----

Chairman: We have, and they haven't been able to come back to us. Maybe you can help us?

Mr. Brian Cowen: I can't recall ... sorry, I can't recall seeing one, you know, if you said to me, "I do recall seeing a document." But, as I say, it was ... the view was converged around the Central Bank situation. I mean, the Central Bank Governor would come and speak to the Secretary General of the Department the same way as he'd speak to me. And they'd have, presumably, that discussion as well, and we'd talk afterwards about it. So it's ... it was part of a broader consensus. It doesn't mean they're right, but it was part of a broader consensus.

Chairman: Morgan Kelly may be considered a contrarian at a particular moment in time, but Alan Ahearne was writing, as I said, right through the period, as was other people, and Mr. Ahearne became ... such was his reputation that he became a senior figure in your Administration. So if it was general discourse out there that was informing the soft landing theory, there was discourse out there that was saying there was a hard landing coming as well.

Mr. Brian Cowen: I agree with you; it wasn't unanimous. I mean, I'm not saying it was all ... everyone thought the same thing.

Chairman: Yes?

Mr. Brian Cowen: But the predominant view, I mean, that's all you can say about it. It's not unanimous. There was always different views about different things. The predominant view was that the evidence was showing you that it was more ... that it was heading ... there was an abatement in the rate of increase. Absent the shock ... I mean, the shock, we have to acknowledge that the shock that came into the system changed the whole territory completely, because it was so great and so impactful and it affected everything.

Chairman: And I don't think that we're on a point of disputation around that, Mr. Cowen, but what this inquiry has done, and has struggled to do, is to find evidence of a core document or a playbook, or a modelling programme carried out that is evidentially based that is the ownership of the Department of Finance that supports the soft landing theory.

Mr. Brian Cowen: Yes, well it may not be in the ownership of the Department of Finance, but it would be the recipient of various research papers that suggested it was a soft landing-----

Chairman: All external?

Mr. Brian Cowen: -----and they may well have agreed with it.

Chairman: All external is what we have to date.

Mr. Brian Cowen: That's fine. And if it was external, it's external and, maybe, they should have done one themselves. But if you've five or six ones on your desk and you all agree ... and you agree with the basic tenet that's set out in the six of them, and you support it, you can say ... well, maybe, you should have threw in a seventh yourself, but that's ... that's, you know, an issue to take up with them.

Chairman: But given that the Department of Finance is the purse keeper of the State and its citizens, and whilst there may be other agencies, the ESRI, IMF, they all have their own role to play, but given that that Department, the Department of Finance, is holding the purse strings and the purses on behalf of the citizens of this country, and given that this theory was going to be the theory on which Government strategy was going to be based upon, because a soft landing theory was rolled out and rolled out, would it not have merited a study that would have been evidentially based by your Department?

Mr. Brian Cowen: It wasn't just a theory. It was based on what was happening. It wasn't a theory saying, "Here, we'll go with a soft landing theory as distinct from a hard landing theory." They were looking at what was happening in the market. They were dealing with the people working in the market. And they were being told, "You're going to see a drop in housing output next year of about 40,000." And they would then bring forward a budgetary framework based on that. And, then they'd say to them, "Well, what do you think about the following year?" "Probably 35", and they'd put that into their budgetary framework, having checked it out, and see how accurate it is, how well ... how good an assessment it is. I mean, and that ... and, at the end of the day, forecasts, as I said, they're less than useless in terms of predicting an inflexion point in a cycle ... if you're going ... if over a period of years, you're going this way, as we were, then you're forecasting, if you like, based on data before and looking to the future, absent any major crises in here, is facing up this way. If you hit a dip and you then look for a forecast, that'll have you down here rather than ... maybe you'll end up half ... I mean, forecasting is not an exact science, and maybe all of us got a bit fixated by them and decided, "Yes, that is the way it is", because every forecast is based on certain assumptions-----

Chairman: I accept all that.

Mr. Brian Cowen: And, you accept all that, so all I can say to you is, you know, I can't say to you, just to be as helpful as I can, I don't recall seeing a Department of Finance large tome that says, "Short Landing - Here it is", you know, but I can show you an awful lot of supplementary documentation which they ... upon which they would have relied, to come and say to their Minister, in preparation of their budgets, "Here's what we think is going to happen in the next two or three years."

Chairman: In any of those supplementary documents that was presented, because we've seen some of the supplementary documentation and they talk about OECD reports, IMF reports, external agency reports, but none of those ... ESRI ... but none of them are actually in-house reports that they've carried out.

Mr. Brian Cowen: I'm not arguing ... I'm not trying to argue the point with you; I'm just saying, to answer ... the best I can say to you is I don't recall seeing An Aire Airgeadais reports. It doesn't mean to say there isn't someone that did some work on it, but I don't recall seeing it.

Chairman: Okay. So, with that said, I now propose that we suspend until 5.55 p.m. 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 their evidence and matters that are being discussed before this committee. With that in mind I now suspend until ... actually ... yes, 17.55, and remind the witness that he's still under oath until we resume. Thank you.

Sitting suspended at 5.36 p.m. and resumed at 6 p.m.

Chairman: We are back into session. We'll try and maybe get out at a reasonable time. We're back into public session and, in doing so, if I can now ask Senator Michael D'Arcy to resume questioning. Senator, you have ten minutes.

Senator Michael D'Arcy: Mr. Cowen, thank you for coming back. Another couple of hours will do you. Did I hear correctly previously when you said you didn't have a financial adviser at the Deportment of Finance?

Mr. Brian Cowen: That's incorrect. There was a man called Colin Hunt.

Senator Michael D'Arcy: Okay. You said in evidence this morning-----

Chairman: There's a bit of phone interference there, folks.

Senator Michael D'Arcy: Sorry?

Chairman: There's a bit of phone interference. Sorry, Senator, back to yourself.

Senator Michael D'Arcy: You said in evidence this morning that when you went into a Deportment you'd source ... to try and source the best people.

Mr. Brian Cowen: Well, you deal with people with varying abilities. Some you meet more often than others and you try and work to that ... you know, I'm not saying those you don't meet regularly aren't able, I'm saying that you get to know some people better than others depending on what work you had.

Senator Michael D'Arcy: Who was the best person in the Department of Finance in relation to banking?

Mr. Brian Cowen: Kevin Cardiff.

Senator Michael D'Arcy: Kevin Cardiff. You valued his opinion.

Mr. Brian Cowen: Yes, I mean, I knew him well for a long time. You mightn't agree with him on everything but I valued his opinion.

Senator Michael D'Arcy: Okay. Mr. Cowen, were you aware that the market analysis in relation to some of the Irish banks, not all of them, at the end of '07, early '08, was that the difficulty ... that their loan book was substantially impaired or would be substantially impaired?

Mr. Brian Cowen: Well, I mean, there was a lot of commentary about banks generally and about Irish banks and where they stood. And some of these people placed these articles for the purpose of their own agendas sometimes, you know, and my view was that I stuck to the official advice as regards what would be said outside ... and in answer to Deputy Doherty earlier, I was talking about, you know, when did you know there would be over-exposures? I mean, you don't know there's over-exposures until there are exposures. There's a lot of people talking about it but, at the end of the day, until the exposures are marked to market, you don't have exposures. But if there's a lot of negative comment going on all the time, it doesn't help.

Senator Michael D'Arcy: In the period that we're discussing this afternoon, Mr. Cowen, up as far as the time you became Taoiseach, did you believe that Anglo Irish Bank was systemic to the Irish banking system prior to your elevation to the office of Taoiseach?

Mr. Brian Cowen: Well, it was not an issue that came up for consideration at that stage, so it wasn't a question that was being discussed.

Senator Michael D'Arcy: RBS offered an advice note in late 2007 stating that Anglo Irish Bank with only ... with no banking network structure, with no ATM's, with a small number of actual clients, that it was not systemic to the Irish banking system.

Mr. Brian Cowen: With all due respect to RBS, I mean, they can have whatever view they like. The important view, from my point of view, is what the Central Bank Governor of the Central Bank says, whether they're systemic or not. And I think the Honohan report makes a very clear that they are systemic ... they were systemic. The fact that you don't have a retail arm doesn't mean you're not systemic.

Senator Michael D'Arcy: Okay. If I could just go back to some of the evidence form yesterday, Mr. Cowen, please. You said that ... from your own evidence today, you said in budget '06 there was a cost-benefit analysis done in relation to the tax incentive schemes.

Mr. Brian Cowen: The ones that were examined, yes. The ones that were examined. No, I'm not saying there was ... no, I'm not saying there was a cost-benefit analysis done, I'm saying that one of the recommendations of the consultants report in relation to property-related taxes ... tax incentive schemes was that were one could be pursued in the future, it should be subject, first of all, to an *ante* cost-benefit analysis ... *ex-ante* cost-benefit analysis and should last for three years, and be reviewed again to check on its benefit over its cost, if you like, at that point.

Senator Michael D'Arcy: In evidence yesterday, Mr. Donal McNally ... he was a ... an official within the Department - you know Donal - stated that the SSIA scheme ... that there was no analysis prepared by the Department in relation to that. That was passed to you subsequently when you became Minister for Finance. There was a bill of €2.5 billion for the Exchequer over the period. Would that have been unusual that the Department of Finance would have facilitated a scheme of this nature without having conducted analysis?

Mr. Brian Cowen: No ... I mean, there wasn't a requirement to do this. It's a recommendation specific to the property-related schemes that this provision came up and was inserted in the Finance Bill by me in my time. In relation to the SSIAs, which was a scheme, as you say, that was dealt yesterday by the then Minister ... I mean, it was a very ... the purpose of the scheme wasn't just about making an understandable small savers scheme available to ordinary people. It was also about trying to - given the rate of growth and spend there was in the economy at that time - trying to find a way in which you would defer consumption by directing it into a saving scheme. In other words, avoid further inflationary pressures in terms of spend and apart from it being a good thing that people would get back into the habit of saving, the Minister at the time felt there was a need to reintroduce, if you like, the savings culture amongst ... in ... amongst people generally. And it was very successful in the take-up and the people who got into that habit again. But its benefit from a macroeconomic point of view is not just about the fact that the Government were putting up money to back, to back with the ... with those who helped them ... to get people to save, but it also has a means of making sure that that expenditure is now going into a savings scheme, is not going into consumption, which is not inflationary and which is deferring spending patterns, if you like, further out into the future in a way that is better macroeconomically than having a lot of spend in a short space of time.

Senator Marc MacSharry: Okay. Mr. Cowen, following the creation of the new Central Bank and the Financial Regulator structure in '03, was there any subsequent review by the Department of Finance to assess the effectiveness of the new structure? If so, were any issues or problems noted and what actions were taken to address these?

Mr. Brian Cowen: Well, there wasn't a review because it had just started ... it just ... it was bedding in, it was getting its ability to raise its own finances through this funding mechanism we discussed earlier. I know that there was a strong effort being made by the Governor that it would be a good pragmatic working relationship with the regulator authority. He didn't want any ... you know, he wanted to make sure this need to work together was firmly established from the very beginning, again, under this new aegis, this new structure. And that, you know ... so that ... that worked reasonably well. I mean, there was a review, I understand, from Mr. Considine, who was the Secretary General ... first Secretary General in my time, where, I think, either the OECD or the IMF did a peer review study of how this Central Bank and IFSRA authority was working and it, sort of, came out okay. So, again, what does that tell you? It just tells you that the Government's mechanisms that were in place seemed to be working well but at the end of the day, we know where we ended up and what the failings were which were outlined in Nyberg and Honohan.

Senator Marc MacSharry: Okay. Just my last question, Mr. Cowen. In terms of contrarian views by public or civil servants, and I'm specifically talking about in July 2007, then Taoiseach, Bertie Ahern, had an infamous comment about suicide in relation to people moaning and cribbing about the property sector. Could I ask your view about anybody within the public sector who may have a contrarian view, would it be likely or less likely to come forward and express their contrarian view when the Taoiseach of the country was speaking in those terms?

Mr. Brian Cowen: Well, I don't think that ... that had that effect. I mean, in fairness to the Taoiseach, he apologised for any offence caused almost within ... it was in a very short time after that comment being made in an off the ... off-script comment. So he did apologise about that. Secondly, no that ... it didn't have that effect. I think there is a need to recognise in the public service a need to develop a culture where diversity of view is not only fostered but encouraged and there's often, because of the culture of the Department over a long period of years or the hierarchy that builds up in places as to how things are done, often it's that that needs to be challenged and it was being challenged, I'm sure, by many good people on various issues. But, from my own point of view, I have to say, I liked hearing different points of view. I liked the intellectual challenge of hearing from people who have a different perspective on things and trying to come to a conclusion myself. There's nothing more boring than hearing the same analysis. Now, that's talking against meself when I, sort of, succumb to the consensus view on various issues ... not succumb to it but, sort of, there was ... was such a predominant consensus that one felt that that was the way it was going to go. And I say in my statement that I'm sorry that I wasn't more questioning and more doubting and sought, maybe more proactively, contrarian views or get people who had expressed contrarian views in to see me and go through it with them in more detail. That's a regret I have but purely from an intellectual point of view as well as from a political point of view.

Chairman: Thank you very much. Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you Mr. Cowen. Mr. Cowen, in paragraph 23 of your opening statement you state: "A Liquidity Group chaired by a Central

Bank official was established in early 2008 to obtain and disseminate information on liquidity developments from the main credit institutions and to identify any potential problems." Can you just elaborate on that group and what exactly it was?

Mr. Brian Cowen: Well, you know, to get more up-to-date information on a weekly basis and ultimately, I think, on a daily basis, as the crisis intensified ... to have up-to-date market information from these banks as to what the state of play was in respect of their liquidity position.

Deputy Eoghan Murphy: When was it established? It says early 2008 but do you know exactly?

Mr. Brian Cowen: I think ... I can't give you the date of it but it was in early 2008.

Deputy Eoghan Murphy: And was it part of the domestic standing group or was it a separate structure?

Mr. Brian Cowen: It would be ... it would have been an out ... offshoot of it, if you like. It was ... it came as part of that process of co-ordination.

Deputy Eoghan Murphy: And did it report directly to you or to the Department or to the domestic standing group?

Mr. Brian Cowen: It would have reported directly, I think, from the Department point of view, probably to Mr. Cardiff.

Deputy Eoghan Murphy: Okay. And would Mr. Cardiff then report to you? I mean, were you-----

Mr. Brian Cowen: Yes, in respect of any developments or trends, I'm sure, you know, he would come to me if there was something arising that needed to be conveyed to me.

Deputy Eoghan Murphy: So, are you satisfied that you were aware of the up-to-date liquidity position of the banks once this liquidity group had been established?

Mr. Brian Cowen: Well, I obviously felt that it was an improvement on ... rather than people getting various information from various bodies depending on who they knew, it was better to have a co-ordination and someone who would, you know, organise that information to be collated on a more formalised basis.

Deputy Eoghan Murphy: We've had evidence in the committee to date on the green jersey agenda in March 2008. Are you familiar with that term and what that agenda was?

Mr. Brian Cowen: I've heard about it.

Deputy Eoghan Murphy: So this is with the Governor and the Financial Regulator going to the Irish banks to ask them to lend to each other because of funding difficulties at the time. Were you aware that this was happening at the time, that the Governor and the Financial Regulator was making this approach?

Mr. Brian Cowen: I don't know was I directly aware from them but, obviously, I was being assured that everything they could do was being done to make sure that liquidity issues were dealt with within the system as a whole and that if people could help out in what was a ... what was seen as a more temporary difficulty, then that level of co-operation that mightn't have been there in the normal competitive position should be considered by ... and that the authorities were ... you know, thought that that would be a good thing to be doing.

Deputy Eoghan Murphy: At the time, the pillar banks wouldn't lend to one particular institution, Irish institution, and another Irish institution couldn't borrow from anyone at all, so do you know was this green jersey agenda set up for one particular or two particular institutions or for the system as a whole?

Mr. Brian Cowen: No, I think it was ... again, back to the point where ... where the authorities, you know, were probably trying to engage the banks to think beyond their own immediate concerns and recognise that it was in the interests of all of them that the Irish system be as well funded as possible in a difficult situation.

Deputy Eoghan Murphy: Were you aware at the time that it didn't work?

Mr. Brian Cowen: I was aware at the time that probably there wasn't sufficient co-operation between them for it to work.

Deputy Eoghan Murphy: Were you worried about that?

Mr. Brian Cowen: Well, you know, at the end of the day, it probably pointed out that people were worried about their own situation too. This liquidity thing was tightening all the time and, you know, there comes a point where ... where commercial imperatives and duties to your own shareholder take precedence over any suggestion that you try and work collegially.

Deputy Eoghan Murphy: The financial stability issues paper, that's on page 3, Vol. 4 of the document from January '08, which we've discussed previously, or earlier, excuse me, it talks about this idea of ELA and that, basically, being the last, kind of, port in the storm because of the lessons learned from Northern Rock.

On page 5:

> As the recent liquidity difficulties at Northern Rock have shown, while an institution may be illiquid but solvent, the public perception of a requirement for ELA is that the institution is in trouble and at risk of collapse. The announcement that Northern Rock would receive ELA from the Bank of England triggered a bank run which was only stemmed by the Chancellor's announcement of a 100% guarantee for deposits in Northern Rock.

Was the purpose of the green jersey agenda to prevent any particular institution having to access ELA?

Mr. Brian Cowen: Well, obviously, if it was possible at all, I mean, it's never your first option to head for emergency liquidity assistance, simply because if the market becomes aware of it, or if competitors become aware of it or people who operate in the market become aware of it, they can put you under greater pressure again. So, sorry, your question was, specifically?

Deputy Eoghan Murphy: Was the purpose of the green jersey agenda to avoid the banks having to take ELA because of the market perception concerns?

Mr. Brian Cowen: Well, that may have been one of the reasons behind it.

Deputy Eoghan Murphy: Is it fair to conclude, then, that one of the banks or some of the banks were already at that Northern Rock position, then in March 2008?

Mr. Brian Cowen: That wasn't ... that didn't happen to be the case, because, as I say, things went, moved along until September. I mean, there were obviously ... people were having some difficulties at various times of the year. But the bottom line was, on the ELA question, it seemed to me when, you know, that the Northern Rock situation sort of made them very wary about the ELA option because of what might happen as a result of markets getting to know about it.

Deputy Eoghan Murphy: That's clear from the scoping paper. When Patrick Neary was before us in the inquiry, and we discussed this, he said the approach was made because they wanted to avoid the use of public money. So was there a risk of public money having to go into an institution or some of the institutions, at that point in time then?

Mr. Brian Cowen: No, we had no discussion about public money going into the institutions at that time. It may be the case that they were looking for, as was, sort of, the view, that when there's difficulties in the banking system, can you find private sector solutions, that's what they're thinking, in broad terms.

Deputy Eoghan Murphy: When I asked him why it hadn't worked, he said that when they approached the banks to lend to certain institutions, that the banks would only consider this if it was guaranteed by the Government. Were you made aware of that at the time?

Mr. Brian Cowen: No, it never came to that, actually, so there might well have been discussions ... I think you have to understand that the regulator can have discussions with banks, A, B, C, D, E and F, without telling the rest of them what he's doing, and not necessarily telling me either; I mean, he has a role to play himself. I wasn't aware, I don't recall being told that at that point, there's a need to consider guaranteeing liquidity cover from bank A to bank B.

Chairman: Deputy, it might be there is phone distortion coming in close by to you there, so I'm just asking members to be mindful of their devices.

Deputy Eoghan Murphy: Thanks, Chair. But just with hindsight, because you weren't aware at the time, what does it tell us when the Financial Regulator and the Central Bank feel the need to go to certain institutions in the State to ask them to lend to others because they don't want to risk public money, and the banks' response is, "We'll only do it if we're guaranteed with public money."

Mr. Brian Cowen: That's the best position that they're going to come up with, isn't it? They'll look for the best deal they can get when they get a request like that.

Deputy Eoghan Murphy: What does it tell us about ... sorry-----

Mr. Brian Cowen: It tells us about, obviously, that there are liquidity strains all the time, and what the regulator and the Central Bank Governor are trying to do is make sure that there isn't further instability in the system.

Chairman: Mr. Cowen, you don't have to happen to have your mobile device switched on, by any chance?

Mr. Brian Cowen: Sorry ... I brought it with me this time, without knowing I was bringing it ...

Chairman: Stop the clock a second..

Mr. Brian Cowen: Am I the culprit, Chairman, yes?

Chairman: Can't make any judgments, Mr. Cowen.

Mr. Brian Cowen: *J'accuse. J'accuse.*

Chairman: If mobile devices were a hanging offence, Mr. Cowen, there would be probably just me and you talking to one another at the moment. Okay, we're back in order.

Deputy Eoghan Murphy: To try and return to that point: regardless of what motives the banks might have, the concerns of the regulator and the Central Bank, and, obviously, the concerns of the Government, given the stability, the scoping paper in January, in hindsight, what does it tell us about the liquidity situation of the banks, and what action perhaps should have been or could have been taken at the time by the Government?

Mr. Brian Cowen: Well, I mean, you're going into conjecture in all of this, at this point but the bottom line was, it was felt at all times here that they had a situation that they could manage, that's basically the point, that the authorities were managing the situation. And, I suppose, it only comes to the point where they can't manage the situation, where they come to say to us, "We've a horse of a different colour here; this is now becoming something else than just liquidity and strength."

Deputy Eoghan Murphy: When who comes to us? Is that the banks come to the Government?

Mr. Brian Cowen: The authorities.

Deputy Eoghan Murphy: The authorities. Okay. What I'm wondering is at what point, though ... at what point should the authorities have gone to you, given the work that was done? I mean, if you look at the scoping paper again from Vol. 4, it outlines three scenarios. One is an institution that is illiquid but solvent. The second is an institution that is insolvent or approaching insolvency and, on page 7, it says, "If a period of illiquidity continues it is likely that a illiquidity institution will move closer to insolvency", and scenario 3 is ... I can't find it here, sorry, but it's where it might be a case of either, but they can't tell because there's so much market turbulence at the time. So, this has been looked at in January of '08, insolvency potentially is mentioned and, in March, three months later, you have the Financial Regulator and the Governor of the Central Bank clearly worried about the liquidity position of at least two banks and looking for private sources of funding because they don't want to risk public funding and they don't want to risk ELA.

Mr. Brian Cowen: It tells you, with hindsight, that there was a pity we hadn't more proactive work done at that time to get a full handle on it. I mean, that's ... we can say that now.

Deputy Eoghan Murphy: Proactive work done by?

Mr. Brian Cowen: By the authorities in their interactions with the banks.

Deputy Eoghan Murphy: Okay.

Mr. Brian Cowen: Now what powers they had to go in and do that, you need to check under the 2003 Act but the bottom line is that there was this huge fear, it seems to me, about any information getting out into the marketplace about anyone in difficulty and you had all this, sort of, secret discussion or, you know, confidential discussion going on - "constructive ambiguity" is, I think, one of the phrases that's used in the document - so as to ensure that people don't get a view of something that would ... could have unforeseen consequences and cause even bigger problems than what you're trying to solve.

Deputy Eoghan Murphy: You said that the authorities should have been more proactive and you questioned as to whether or not they had the powers but-----

Mr. Brian Cowen: No, I'm not questioning that. I'm saying ... you're asking me, in hindsight, you know, "What does it tell you?" It tells me that it's a pity we hadn't a clearer picture which would have required more intensive work being done at that time.

Deputy Eoghan Murphy: Did they not have a clear picture and that's why they made approach?

Chairman: Final supplementary, now, Deputy.

Deputy Eoghan Murphy: Did they not have a clear picture of the liquidity problems and that's why they made the approach?

Mr. Brian Cowen: Well, it was always ... it was always said to me that it's a liquidity issue and we're working on dealing with the liquidity issue. That's ... and that they were left to do that on the basis that they had the relationships with the banks and they needed to make sure that the system functioned and that's where it was ... you know, at no stage did they come back and say, "No, it's something different."

Deputy Eoghan Murphy: In the scoping paper of January, just a few months earlier, it did talk about how a liquidity problem could become a solvency problem and it did talk about how even a suggestion of the need for ELA could bring about that problem.

Chairman: That's your final question now, Deputy.

Mr. Brian Cowen: Yes, so ... what that tells me is ... I mean, it's basically the contingency ... the comprehensive scoping paper sets out ... I know it refers to all these things that yourself and Deputy McGrath referred to but a lot of work had to be done to bring that scoping paper, if you like, to be fleshed out. I mean, "What were the legal issues, what were ... have you spoken to the Attorney General on this and resolution? No, we've a problem. Have we got a ... how do we propose starting a State ... a protection legislation that ultimately we got probably by June-July?" I mean, these issues were being worked on but, on the liquidity question *vis-à-vis* individual banks and institutions, that was being managed by the authorities themselves and I'd say doing it on a basis that was very fearful of any market knowledge about what it was they were trying to achieve.

Deputy Eoghan Murphy: But just on the market knowledge point because in January of 2008-----

Chairman: I do have to move on. So can I just ask you to supplement this very briefly?

Deputy Eoghan Murphy: It's just about the advice given to sell shares in Irish institutions and I think I have the figure here. That was in January from the hedge fund-----

Chairman: You're entering a new line of questioning now, Deputy.

Deputy Eoghan Murphy: No, it's exactly related ... about knowledge in the market - 34% of Irish banks' share value went in two hours on 28 January because advice was made to sell shares in Irish institutions, so the market knew what was happening.

Mr. Brian Cowen: You know, obviously, the market along with other bank shares in other countries were obviously attacking the bank shares. What the authorities were trying to do is regardless of what sentiment there was in the market, in terms of the share price and who was buying and who was selling shares, they were trying to make sure that there were sufficient funds in the system. They were agnostic, if you like, on that point, they wanted to make sure we have funds in the system going. And if it meant talking to various banks about arrangements, informal or otherwise as to how to do that, their overall preoccupation was, "Keep this system functioning. We are working in a tighter liquidity situation than was the case 12 months ago, eight months ago, four months ago." And they are all the time trying to make sure that that liquidity situation doesn't become critical. That's, that's as I see the work that they are doing.

Deputy Eoghan Murphy: Thank you.

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

Deputy Kieran O'Donnell: Mr. Cowen, can I go back to the issue in terms of the Quinn Group and the contracts for difference and you received a phone call from Seán FitzPatrick I think around the ... was it 17 March '08? Now, the domestic standing group in the Department of Finance and with the Central Bank were considering the issue of the contracts for difference and the overall Quinn Group in early 2008. I suppose the question is, were you kept abreast of what type of discussions were being carried out and what type of analysis was being carried for the domestic standing group on the Quinn Group both in terms of the contracts for difference, in terms of ... and also in terms of the exposure, the potential exposure that the Quinn Group might bring to Ireland itself? Both in terms of their exposure-----

Mr. Brian Cowen: Once ... once this became known that the Quinns had an overhang of shares in Anglo?

Deputy Kieran O'Donnell: Correct.

Mr. Brian Cowen: No, those matters are referred down to the regulatory authorities. They are dealt with by the regulatory authorities. I don't ... there is a certain-----

Deputy Kieran O'Donnell: Would you be kept informed of what was happening in the domestic standing group?

Mr. Brian Cowen: No, I was kept informed generally by the domestic standing group who were doing preparations on the legislative side for the systemic issues. But in relation to specific regulatory notifications on specific banks to the regulatory authority, that is a matter that is kept within the regulatory-----

Deputy Kieran O'Donnell: Would you have received the minutes of the domestic standing group as Minister?

Mr. Brian Cowen: I can't recall, Deputy. I just don't know whether I would be getting the minutes or not, I can't recall.

Deputy Kieran O'Donnell: Well, then, were you aware of the difficulties with the Quinn Group itself and maybe the exposure in terms of jobs to the Quinn Group? Both in terms of the ... it was heavily leveraged the ... the bonds to be replenished in later 2008 ... was that ... were you aware of that?

Mr. Brian Cowen: I think the issue in relation to the Quinn Group, that came out of the ...

the regulatory authorities themselves. I think they came to Cabinet and notified us of ... came to the Government and notified us of problems that were arising and that they were dealing with them as a regulator. Mr. Elderfield would be *in situ* at that stage I think, from memory.

Deputy Kieran O'Donnell: Well, that was then. I'm talking about in the first half of 2008.

Mr. Brian Cowen: Oh, sorry, no. I'm talking about 2009 there am I?

Deputy Kieran O'Donnell: Yes, no, but the domestic standing group were considering in depth the whole issue around Quinn, both in terms of the unravelling of the shares and also in terms of the possible implications for Ireland as a country in terms of the exposure, both in terms of the contracts for difference for Quinn and also in terms of that they were heavily leveraged. They had bondholders in the US and the potential impact that could have on Ireland as a country.

Mr. Brian Cowen: The question is ... sorry, Deputy, the question is?

Deputy Kieran O'Donnell: The question is: were you aware of that? Were you advised by the officials in the domestic standing group particularly in relation to Quinn, not just the contracts for difference but the wider implications in terms of the group itself?

Mr. Brian Cowen: I'm sure Deputy ... I'm sure Kevin Cardiff kept me involved ... kept me abreast of the relevance. I presume that's ... I can't say to you hand on heart I remember a time when that happened but that may have happened.

Deputy Kieran O'Donnell: But so were you aware at that stage in early '08 that there was difficulties with the Quinn Group itself?

Mr. Brian Cowen: No, I don't think so. I don't believe I was.

Deputy Kieran O'Donnell: Can I go back to the last budget you put through, which was the 2008 budget, which you would have put through in December 2007? Do you believe in line with the fact that, we'll say, stamp duty from property tax was ... had gone down in '07 by 20% and it collapsed heavily in '08 went down by nearly over 50%, should you have adopted a less expansionary budget for 2008 where you increased current expenditure by nearly 9%?

Mr. Brian Cowen: Yes, I think I probably should have been less expansionary in that budget. It was the first year after an election and certainly there was ... we did budget in lower housing output and all the rest of it. But looking back now I'd be, rather than defensive about it, I think I'd rather have done ... spent a bit less then. But it was a new Government and issues arose there, but I accept that ... it's not the one I'm proudest of.

Deputy Kieran O'Donnell: What would you have done differently with it, if you had the chance?

Mr. Brian Cowen: Spent a bit less.

Deputy Kieran O'Donnell: In what areas?

Mr. Brian Cowen: Well, I mean, you're asking me to redraw the budget now. I'm saying to you, you know, genuinely speaking, that looking back on it, I think the '08 budget, whilst it did account for the change in the situation and all the rest of it, I think probably there needed to be a ... we needed to start a tighter position that year rather than allowing for the new Government to settle in, etc. Sometimes that can happen.

Deputy Kieran O'Donnell: Okay, thank you.

Chairman: Thank you very much. And the next questioner is Senator Sean Barrett. Senator, ten minutes.

Senator Sean D. Barrett: Thank you very much, Chairman, and thanks, Mr. Cowen. You mention in your bullet point 104 on your presentation, "I was not aware of contrarian views within the Department of Finance which differed in substance from the Department's overall assessment." Were the contrarians kept away from you as Minister?

Mr. Brian Cowen: I'm not aware that they were.

Senator Sean D. Barrett: Yes.

Mr. Brian Cowen: I was ... you know, I don't wish to comment on individuals, but there was some people I knew, some people I didn't know. But, as I say, I've ... I would never have stated to anyone in management, "Don't send ... don't have someone come down here with views that I don't share." I mean, that's not my ... that's not the way I operate. I like to hear what other people have to say. So there may have been an internal management issue. Now, I don't know how big an issue this was really in reality anyway.

Senator Sean D. Barrett: Yes.

Mr. Brian Cowen: I'm not so sure it's as big an issue as has been suggested. But you can have different views and perspectives on how quickly the housing market is going to pick up or go down, etc. It's not sort of a hanging offence one way or the other. But it's ... I suppose it's important that people be mindful of all opinion within a section and make sure that it's conveyed in some way to the Minister. If that's a way of making sure that people's views are being respected, I suppose.

Senator Sean D. Barrett: Yes, but I know that is your view. I'm just wondering about the corporate view, because we have had evidence that the ESRI, a man called Nervous Nelly by John FitzGerald, used to ring up if he didn't like what was in the reviews. We saw huge chunks of an OECD report being cut out, including the word "boom", which you have actually in your presentation. It's one of your bullet points, you're referring to the housing boom at point 75, the word "boom" was cut out. So, and ... you know, pressures on the ESRI from the Central Bank, pressures on the ESRI from the Department of Finance, pressures on the OECD, well just taking chunks out of the report, including one on bank realisation. I think five points on financial restructuring; two of them taken out. So there seemed to be a culture of not wanting, in the Department of Finance, to face up to what was going on?

Mr. Brian Cowen: Well, I think it's more so that, Senator, I would have thought it's a question of being over-defensive in the sense that if there aren't a diverse range of views out there perhaps then you don't have to argue for your case quite as strongly. I mean, I'm not ... I'm only speculating, but I think, in fairness to the people in the Department of Finance, they have always ... I've found them being very open to discuss all sorts of issues, and never took offence if people held a different view. But I just think institutionally sometimes that what can happen, it's back to the culture I'm talking about, I know I could see different cultures in different Departments depending on how long they were established. It's just the way it is. Some of the old Departments of State have a certain way of behaving compared to some of the newer ones, and that's just, that's just a custom that has built up over time. It's just ... maybe all institutions are like that, including political parties, but the point is, to answer your question, I believe that, yes, there obviously have been instances where people are being over-sensitive and over-defensive about issues when you're better off saying, "Let it out there and let's argue the toss." And if that brings a greater public participation, all the better.

Senator Sean D. Barrett: You mentioned in that section 85, where you've a long description of what went wrong, I mean, which I find very comprehensive, but one of them is, "[There were] stunning failures of corporate governance ... in [the financial] institutions." Were there proposals in your time for directors' codes of compliance and codes of corporate governance? Because there's some evidence in the report that the Department of Finance stopped those, which you now regard as "stunning", and I agree with what you said today about ... you know.

Mr. Brian Cowen: I think ... I've checked up on this, because I know it was an issue that was coming up constantly with various personnel in the inquiry. I have to say it wasn't something that was ... I had a lot of detailed knowledge of, over, you know, when you're dealing with so many things, budgets and everything else, this particular issue wasn't one that I ... was at the forefront of my mind. But, I'm satisfied that, based on the conversations I've had and some of the documentation I've seen, that it's not correct to say that the Department changed the mind of the regulator on this. The regulator had made his decision to defer pursuing this issue and going for more consultation with the industry. Now, maybe he should have said, "No, I'm not doing any more consultations with the industry, I'm going to do something else", but anyway, that's what happened, and, I've been assured by the Department that, certainly, there was no proactive view on their part. They were prepared to go with what ... the regulator's decision not to proceed. Now, in the ... as you know, there were other legislation being prepared, comprehensive financial services legislation. Sometimes that's usually a method of deferral of something when you really need to probably deal with it there and then, so ... I ... I'm just satisfied that it wasn't something that exercised the minds of the Department to the extent that they went down to the regulator's office and said, "We're not having this." That wasn't the case.

Senator Sean D. Barrett: Continuing on, on that list, if I may, you mentioned the auditors as well as the regulators and Government all share part of the responsibility. How did auditors miss so much that was going on in Irish banking?

Mr. Brian Cowen: Well, you had them here, again, far more qualified than I to be able to answer that question. There is no doubt that changes in international accountancy regulation, it appears, in terms of treatment of losses or potential losses or how you identify losses and when you identify them, this seems to all have had some impact, it appears to me, looking at it, as to what attitude they took in relation to a given set of circumstances. You've had them here and I'm sure you've cross-examined them and scrutinised them very strongly on this point, but, it is very concerning to me that we were in a position where we did not have true position of the banks at the time we had to make decisions. And that was on the basis of professional people saying, "This is the situation, they are solvent", you know, they are ... you ... so, what ... what that impact that may have had on our decision-making, I haven't fully considered, but I'm just making the point that these nuances are important when it comes to crisis management.

Senator Sean D. Barrett: In the banks themselves, watching them as a public representative over the years, and, you know, seeing how they were very important figures in rural towns in Ireland, to ... and notoriously conservative and solvent through famines, and wars, and then recessions, how do they ... what happened within banks, do you think, that they were at your door on 29 September 2008 looking for vast amounts of money?

Mr. Brian Cowen: There's no doubt that people started concentrating on acquiring a greater market share at the expense of their risk management practices. People were ... there was a change in culture taking place in the banks, obviously, in that respect. Their idea of risk management changed. Market share seemed to become more important than making sure that your loan book was in good order, and less risk. And, what also changed is that the model of banking itself has changed, as I was saying earlier, that ... this old model of deposits paralleling loans, or if not paralleling them, at least having a close correlation between the level of your deposits with the level of your loan book, that changed from the 80s on. And the ... and the ... you know, the ... having read about this to inform myself, I mean, it's clear that the increasing role of other financial players, other than traditional banks, and their ability to compete for those deposits, meant that bankers had to get money elsewhere from different sources, and that's where you get into the whole wholesale markets situation.

Senator Sean D. Barrett: Should we have more scientifically examined the soft landing hypothesis, given that we relied on it so much?

Mr. Brian Cowen: You know, I've said it to myself, I regret that I wasn't more doubting or I wasn't more proactive in developing other scenario situations. The problem was - and I make this point not defensively but as a matter of fact - we would always in budget speeches or economic speeches, certainly in budget speeches, highlight what the downside risks were. The problem was that the downside risks, say, maybe one of them might materialise, two might materialise but if they all materialise at the same time, then you're in a whirlwind rather than a strong wind coming at your face, if you know what I mean. And that's important in the interests of managing expectations of the public as well as ... and bringing that information to the market, through the authority of your position as Minister of Finance, so that people are making investment decisions with the full knowledge that there are risks out there. I don't think it's in the interests of Ministers or Government to portray the thing in such an optimistic way that there are no problems at all and we certainly sought not to do that, although, I'm sure, there may be some instances of hubris around from people who can-----

Chairman: Final supplementary.

Senator Sean D. Barrett: Thank you, Chairman. Were you surprised when the Wright report found such a low level of qualifications in economics at master's and PhD level in Dublin compared to Ottawa?

Mr. Brian Cowen: Well, recruitment into the public service at that level had been very difficult from the time that the economic prospects improved because there were other job opportunities for people who would normally use that channel of Civil Service employment. There are now far more remunerative jobs available for people of that calibre in the private sector and in an area of industry ... the financial services industry that we hadn't explored before the late '80s and there were, indeed, many people whom I know are successful in the financial services industry who have been well trained within the Department of Finance and went successfully to the private sector. But it meant that there was a draining of resources and a difficulty in trying to replenish those resources in a way that would have maintained the intellectual rigour of the Department, for which it had been noted in the past, albeit conservative.

Senator Sean D. Barrett: Thank you, Mr. Cowen.

Chairman: Thank you very much. Deputy Joe Higgins. Deputy, ten minutes.

Deputy Joe Higgins: Mr. Cowen, you state that throughout your time as Minister for Finance very few questions were asked by Members of the Oireachtas about banking issues and during the time under consideration, of course, bank lending was growing very rapidly - perhaps 30% per annum - house prices were careering ahead and personal borrowing was also rising rapidly. In your opinion, why was there so little scrutiny among the Oireachtas ... or many in the Oireachtas on these issues?

Mr. Brian Cowen: Well, I think that probably they were looking at the economic performance in the economy and relatively full employment and all the rest of it and saying to themselves that, you know, looking at the accounts of these banks and they seemed to be very profitable and there seemed to be good asset quality ... and when you look at all these traditional headings, if you like, as to what is the status of a bank's relative economic health, it seemed that we were in a good position. When you look at even Central Bank reports where their IMF bank performance indices - there might be 15 or 20 of them - and even in difficulties ... when we were in the height of our credit or lending growth phase, these Irish banks were passing muster in 12 or 13 of these 15 categories. What does that tell you? I don't know what it tells me. I think that just there was a belief in good times that banks seemed to be a good business to be in and they seemed to be doing well and there was no indication that they were in trouble. And, as I say, this silently ... this misjudgement of risk is what's behind all of these miscalculations from a whole slew of actors.

Deputy Joe Higgins: Could it have been a factor, Mr. Cowen, that, perhaps, a majority of the Opposition shared with the Government the belief in light-touch regulation, kind of, neoliberal markets, etc., that didn't lead to a more intense scrutiny?

Mr. Brian Cowen: I don't know. You'll have to ask them. I'm not so sure that any spectrum of the Dáil was coming forward with questions that suggested that the whole system needed to be relooked at. Maybe I'm wrong in that but I don't recall that being the case.

Deputy Joe Higgins: Just on another issue, by the year 2000, the Government had requested reports from Mr. Peter Bacon, I think it was maybe three at that stage, to address rising property prices. Now in 2004, '05 and '06 when the prices of houses again accelerated, why was no such report commissioned or, you know, commensurate action taken by yourself at that time?

Mr. Brian Cowen: Well, my recollection of the Bacon reports at that time was trying to find ways in which to accelerate supply in the market and it involved modernising legislation, bringing in new Planning and Development Acts, probably the first modern one since the 1963 Act. Various, you know, serviced land initiatives, trying to identify how the State could facilitate the development of housing in areas where there was clearly a demand for it, particularly in urban areas, where there was a real problem on the development plans and planning authorities' zones ... zoning decisions, getting the requisite land and development land in place to do it. So, we were ... at that stage then you had the supply built up and you had the capacity of the private sector to provide these houses. There was also the community gain and social gain issue that was brought forward by Part V initiatives, the Part V initiative that was under one of our Governments in the early stages of 2000, late '97, and that was discontinued and maybe it shouldn't have been discontinued.

Deputy Joe Higgins: Mr. Cowen, by 2006, one third of the value of trades on the Irish Stock Exchange were accounted for by contracts for difference. Now, as you would know, a contract for difference is a form of derivative instrument that allows an investor to bet on the likely performance of a particular stock without owning the stock, or a majority of the stock even, and it could allow investors to hide their identity and also not to pay stamp duty. Mr. Cowen, why did you reverse a decision by the Revenue to introduce a stamp duty on contracts for difference in March 2006 that would have reduced their attractiveness perhaps as a speculative venture and also closed off a tax loophole?

Mr. Brian Cowen: As I understand it, there's detailed replies to this particularly issue, parliamentary replies, which explain the Government's position. It is true that the Revenue Commissioners were going to come forward with a proposal. That was commented on by people in the Irish Stock Exchange and elsewhere. The Department took the view eventually that this was something that needed to be taken back by the Revenue Commissioners and re-looked at; that the way they were going about trying to do this particular issue wasn't going to work; hat it could mean the relocation of business from Dublin to other stock exchanges with no ultimate benefit and that, in other words, the transactions could still take place but they wouldn't be taking place in Dublin. So the need was ... so, as my recollection, I haven't the full details in front of me but there have been on a number of occasions, quite comprehensive replies to parliamentary questions given which explain precisely how that process worked.

Deputy Joe Higgins: And, looking back now, Mr. Cowen, and you might remember I quoted Mr. Buffett earlier where he described a derivative as a time bomb, both for the parties that deal in them and the economic system. Had such a tax gone on, it might have discouraged Mr. Quinn from the extent of dealings in contracts for difference in Anglo and, thereby, reduced at least some of the damage that was consequently done. Do you regret now that that tax didn't go on?

Mr. Brian Cowen: Well, no, I've pointed out that, in fact, that activity would simply have relocated elsewhere. It wouldn't have stopped the activity. So, the point I'm trying to make is that the reply that I gave back in 6 April 2006, sort of, gives out the background to this. I'm advised by the Revenue Commissioners, it states:

> [I]n the light of the planned review, with a view to the Budget 2007 announcements, and of the surrounding circumstances, they had decided to allow the existing practices of CFD issuers to continue, pending the review. They further advised that a CFD business could otherwise have simply transferred to non-Irish equities. There is unlikely to be any net loss of stamp duty.

So it wasn't a question that we were losing stamp duty, it was a question of these transactions taking place somewhere else.

They were going to happen, and what we needed to do was get the Revenue Commissioners to come forward with a proposal that would deal with any threat of abuse of that in terms of how it would affect us, and that's what they did in due course.

Deputy Joe Higgins: Thank you Mr. Cowen. In response to Deputy Phelan earlier, in regard to party funding, Mr. Cowen, you indicated that in your view there was no issue as members of the Government were not included. But can I ask you if in ... well, in 2006, the record shows that a golf classic raised €18,000 for yourself, from 18 donors, 12 of whom were very prominent in the property construction and related industries. Is it appropriate, do you think, for the Minister for Finance to have that type of engagement with what were popularly known as members of the golden circle, or do you think it gives rise to the idea of the golden circle, that this type of relationship would exist?

Mr. Brian Cowen: I don't know because it really depends on the mentality of those who want to think up golden circles. It was a ... basically, that was a publicised event by people who were raising funds to help me with defraying constituency expenses and the fact that I had ... down on my own constituency. It was totally open and above board and declared and submitted as is required under the regulations. When that query was raised about it I answered it. I received no request from any of those individuals in respect of any decisions I ever made in, in any area of activity I was involved in.

Deputy Joe Higgins: This-----

Mr. Brian Cowen: The fact that they happened to be of the ... from that would be more to do with those who organised the event than any personal contact I have.

Deputy Joe Higgins: Mr. Cowen, in a book called the *Ship of Fools* by Fintan O'Toole, it's said that €65,000 was raised for political funding for yourself by 13 businessmen around a meeting in the Shelbourne Hotel in March 2008. Can you explain ... is that ... did that happen, and can you explain what that was about?

Mr. Brian Cowen: I don't know what that's about, I'm not aware of, unless it was a ... I'm not aware of what that's about. Certainly not for myself, it wasn't a personal fundraising event or a constituency fundraising event. You'd have to give me details on that and I'll provide clarification for it.

Deputy Joe Higgins: Okay. We'll come back-----

Mr. Brian Cowen: It may have been a party event I was asked to attend.

Chairman: Final question, Deputy.

Deputy Joe Higgins: Yes. Mr. Cowen, last question: in evidence to this inquiry, Mr. David McWilliams relayed a contribution to "Prime Time", RTE TV, that he made in October 2003, and a brief quote on what he said in October 2003 is as follows:

> The Irish housing market is a scam. It is an enormous financial swindle that could potentially confine an entire generation of young Irish workers to years of bad debt. Far from being a reflection of economic vitality and fundamental demand the housing bubble is, in the main, a vacuous financial confidence trick that has been foisted upon us by an alliance of banks and the landowners. ... Behind this nonsense is excessive and irresponsible lending from our financial institutions.

Would you agree that that was a very perceptive analysis at that time? And in your view, why didn't the establishment, political, departmental etc., cause to examine much deeper what was going on in the banks and in the property sector with views like this coming forward?

Chairman: Thank you. Mr. Cowen.

Mr. Brian Cowen: Well I don't ... you know, I don't believe that I would characterise housing policy of successive Governments in the way it's been described. The whole purpose was to increase supply and meet a need - a community need - whether it be public housing or private housing, on a continuous basis, that's always been a strong housing policy of successive Governments. I don't accept that ... you know, it has a nefarious purpose that's already rearranged ... prearranged and that Governments are in the business of pursuing that, sort of, idea. That's ... I don't accept that. He had a view, a strong view, in relation to that particular matter in

2003, something came to pass in 2008, and he, obviously, may feel he's vindicated in what he had to say. My view is we need people who are able to build houses to do so in a well-planned and organised way at an affordable price for our people. And there is no doubt that the price rise of houses from the time we became part of the euro, because of the interest rate situation, you would normally have an ability to use exchange rate policy where you're outside the euro to try and deal with that. But, you know, I think that it's not right to say that people who were involved in this industry are people who, you know, shouldn't be allowed get ... do their work. It's an important facet of any modern society that we have good, well-built houses for our people. And, you know, at the same time, we know that, as a result of the crash, people, as you say, have been in hardship and negative equity and ... you know, I accept that and I sympathise with that outcome, that that happened to anybody. But you know, the fact is that we need a vibrant housing sector so that people can find homes for themselves and their families and we need to try and do that through better planning, better financing and in the most affordable way possible, so that opportunity is available to every citizen.

Chairman: Okay, thank you. Senator O'Keeffe.

Senator Susan O'Keeffe: Thank you, Chair. Just following up, Mr. Cowen, on those remarks you were making about the well-planned and affordable housing. In the April 2006 census, there were 266,000 vacant housing units - that had gone up from 230,000 vacant housing units in 2005, gone up from 140,000 in 2002. How can you explain the idea that we wanted well-planned, affordable houses with the number of vacant houses that are evident from these figures and did you ... were you aware of those figures?

Mr. Brian Cowen: I mean, the housing policy is run by the Department of the Environment, but that's beside the point. I don't want to deflect away from the issue. The question of vacant houses, is that relating to second homes or holiday homes? Is that included in your vacant houses definition?

Senator Susan O'Keeffe: Well, I'm using the definition as provided by the census. I'm just ... there were clearly a lot of vacant houses, whether they're second houses or not. You're talking about-----

Mr. Brian Cowen: Are they holiday homes, I'm asking?

Senator Susan O'Keeffe: Well, some of them will be-----

Mr. Brian Cowen: Okay.

Senator Susan O'Keeffe: -----but the point is-----

Mr. Brian Cowen: So the point is-----

Senator Susan O'Keeffe: -----it's the census. It's ... sorry, 350,000 vacant houses-----

Mr. Brian Cowen: Yes-----

Senator Susan O'Keeffe: -----that'd be an awful lot of holiday homes, Mr. Cowen.

Mr. Brian Cowen: It would, of course, yes, but the point I'm making to you is that they were made ... they were built and they were sold to people who bought them because they had the ability ... either the money or the need to have them. So that's ... the idea that, you know, people who were becoming ... had higher disposable income, were improving their income in some cases by 6% a year, who wanted to invest in a holiday home for their ... a second home for their family, that's ... you know, that's something they wanted to do. I'm not saying that the planning system was right and correct in every respect. It clearly wasn't. But, you know, these homes ... these houses that were built and sold, there was a demand for them from somebody, so there were purchasers who were buying these homes.

Chairman: Just to assist with the question ... I'm going to bring up a map on the screen which gives the map of all the ghost estates in the country. If you just want to be talk ... referring to it in your discussion, okay.

Senator Susan O'Keeffe: Yes, okay, thank you, yes.

Chairman: It'll come up. It'll be there. It'll come up.

Senator Susan O'Keeffe: I'm moving on.

Chairman: Okay.

Senator Susan O'Keeffe: Vol. 1, page ... I'm sorry, Vol. 1, page 22 of Mr. Cowen's documents: "The Department of Finance (DoF) did not, despite its mandate, see itself as concretely involved in financial stability issues; it also did not have the requisite professional staff for this." This was an observation from the Wright report in relation to that. So it did not, despite its mandate, see itself as involved in financial stability issues. Why was that, Mr. Cowen? You were the Minister for Finance at the time.

Mr. Brian Cowen: Because under the 2003 Act, as given by evidence by the Central Bank Governor and by the Financial Regulator and by Department officials here, the independence of the regulatory authority was regarded as highly important for its credibility and for its operationality. It doesn't mean that the Department of Finance, you know, had no concerns or had no mandate for financial stability. It was simply that for the independent regulatory system to work, it had been given the powers by this ... by the Oireachtas for them and them alone to be involved in regulatory activity and wider stability issues. Those issues were then reported to the Department of Finance who took them into account in relation to their overall economic and budgetary policy.

Senator Susan O'Keeffe: But the Wright report is saying, "The Department of Finance did not, despite its mandate, see itself as concretely involved in financial stability issues."

Mr. Brian Cowen: Yes, well, that is a criticism by Mr. Wright of the Department of Finance.

Senator Susan O'Keeffe: Do you accept the criticism?

Mr. Brian Cowen: I mean, that's his criticism. That's his view. And, in fairness to Mr. Cardiff, who instigated ... or who suggested to the Minister that this review take place and was quite right that it should happen given what had happened in the country, that there were obviously things that needed to be improved and that's one of them that had to be improved in terms of the personnel and the expertise and the specialisation that's necessary to do that job properly.

Senator Susan O'Keeffe: Can I go back to the contracts for difference, please? We understand that Mr. FitzPatrick phoned you when, I think, it was Malaysia or Vietnam, just after 17 March, that's correct?

Mr. Brian Cowen: He rang me, yes.

Senator Susan O'Keeffe: Was that the first time that he'd rung you in relation to this matter?

Mr. Brian Cowen: The matter - what had happened in the share price?

Senator Susan O'Keeffe: The contracts for difference .

Mr. Brian Cowen: It wasn't about the contracts for difference; it was about the fact that there was ... there had been activity in the stock market that had hit the share, and there was an overhang of shares. But it wasn't specifically saying to me, "Can you do something about the CFD issue?" That wasn't the issue, he was simply informing me what-----

Senator Susan O'Keeffe: Did you discuss the contracts for difference in the call?

Mr. Brian Cowen: No.

Senator Susan O'Keeffe: Had you discussed it previously with Mr. FitzPatrick?

Mr. Brian Cowen: No.

Senator Susan O'Keeffe: No?

Mr. Brian Cowen: No.

Senator Susan O'Keeffe: So when did you find out about the contracts for difference?

Mr. Brian Cowen: This arose ... this thing arose in relation to a proposal from the Revenue Commissioners; it was a separate issue altogether.

Senator Susan O'Keeffe: No, when did you find out about Mr. Seán Quinn and the contracts for difference in Anglo Irish Bank? Who is the person who told you that?

Mr. Brian Cowen: Well, the person who would have told me that, that there was an issue in relation to that, would have been probably the Governor in the Central Bank in the first instance.

Senator Susan O'Keeffe: Can you remember when that was?

Mr. Brian Cowen: It would have been just before I went on that trip around Patrick's Day.

Senator Susan O'Keeffe: Okay, and you said I think that you ... sorry, he told you that, and what was your view? Can you remember what you thought at the time about what you'd heard, about whether this was serious, or not serious, or significant?

Mr. Brian Cowen: Obviously, it had become serious because you saw that the market reaction when it got legs in the public domain or there was rumours or whatever about this, or some knowledge about it, it had hit the share of the bank very severely. So when I got word then to say, "The chairman wants to speak to you", I first rang the Governor and said, "Look, is it in order for me? He wants to have a chat with me. Is that .. ". I just wanted to have his view. I was over in Vietnam at this stage and I was trying to get a handle on what was going on-----

Senator Susan O'Keeffe: Coming home obviously.

Mr. Brian Cowen: Obviously, yes, I was coming home. But I'm just saying, when the phone call came that's where I was and I checked with the Governor and I said to him, "Look, I think the best thing I can do from this position is, I'll be telling him he needs to go down and see you about this and you need to get, you know, the regulatory authorities onto this and work out how this matter's going to be resolved."

Senator Susan O'Keeffe: Okay. And did you continue to be ... to keep in touch with that? Did you talk to Mr. FitzPatrick again? Did you talk to Mr. Drury?

Mr. Brian Cowen: No, ... speak to Mr. FitzPatrick or Mr. Drury. No, that matter didn't come up again with any ... Mr. Drury or Mr. FitzPatrick, that was ... once it's referred down to the regulatory authorities that's where it goes, and I'm not, no longer, I'm no longer operationally involved. That's a matter for the regulatory authorities to deal with.

Senator Susan O'Keeffe: Why would you not have continued to be operationally involved with something that was that important, or was it not that important?

Mr. Brian Cowen: No, because it was a regulatory matter. I don't believe in any way that there should be any political interference in regulatory matters. I think it's absolutely fundamental. And when ... so what happens is you refer these matters to the requisite authorities. They interact under the various statutory powers of the of the Act-----

Senator Susan O'Keeffe: When did they report back to you?

Mr. Brian Cowen: Well, I mean, the report back to me eventually ... Well, not to me it came back when there was a change of Administration. I think Brian Lenihan was *in situ* at that stage ... And the report back to us sometime in July or the autumn was this matter was being resolved, that there was people going to purchase shares and whatever. So ... but we had no detail of that only that it was being resolved.

Senator Susan O'Keeffe: And you didn't think it was appropriate to find out what the detail was, or it wasn't your duty to do so or-----

Mr. Brian Cowen: No, there are confidential issues, confidentiality issues around banking law that apply to everyone.

Senator Susan O'Keeffe: But you had seen the impact that it had had on the share price?

Mr. Brian Cowen: Yes, and we were assured by the regulatory authority's that the matter was being resolved, and we were given a general indication of what that was, but I didn't have any individual detail of that. It's not ... so, you know, that was that was the situation. They gave us the information in a way that was in compliance with the law at the time.

Senator Susan O'Keeffe: Mr. Cowen, going back to November 2007, and this is Vol. 2 of the Department of Finance. It may be a different ... I'll give you the reference, DOF01962005. This would have been a document called "Confidential", which was written by the Central Bank. It was an assessment of financial market developments, 16 November 2007. I'm assuming that this was a document that you would have seen, although I'm not sure if it's in your book, so forgive me. But, the point was it was telling-----

Mr. Brian Cowen: Can I see it then if it's not-----

Chairman: Pass the document over.

Senator Susan O'Keeffe: I gave them the number.

Chairman: Give it a moment to come up so.

Senator Susan O'Keeffe: Basically it was warning you, warning everyone-----

Chairman: Just give it a moment, please, Senator.

Senator Susan O'Keeffe: Can you stop the clock then?

Chairman: Reference the document please, before-----

Senator Susan O'Keeffe: Can you stop the clock for me, please?

Chairman: Yes, just hold the clock a sec. That's fine.

Mr. Brian Cowen: Sorry, go ahead. Sure, it'll come up on the-----

Chairman: Okay, it is up there now.

Senator Susan O'Keeffe: Okay.

Chairman: It's coming up.

Senator Susan O'Keeffe: So, basically, this document was saying that things are, you know, that things are serious - the level of activity in the interbank lending market is low, interbank rates remain high and so on, banks are currently executing contingency funding arrangements. So, from November 2007, at the very least, you, as Minister for Finance, would've been aware that your own authorities were telling you things were serious and that the banks were in a serious state. So, I want to ask you, whether you, as the Minister for Finance, organised any, if you like, emergency or contingency meetings where you called together - I know the domestic standing group was meeting - I'm asking-----

Chairman: What's the page there, Senator?

Senator Susan O'Keeffe: I'm sorry, pages-----

Chairman: I may just need you to re-reference it again.

Senator Susan O'Keeffe: -----3, 4 and 5.

Chairman: And what is it?

Senator Susan O'Keeffe: Vol. 2, the Department of Finance.

Chairman: I know that but what's the document in regard to? Are we talking about financial-----

Senator Susan O'Keeffe: It's the Central Bank-Financial Regulator "Assessment of Financial Market Developments - 16 November 2007".

Chairman: Okay, thank you.

Senator Susan O'Keeffe: A confidential document.

Chairman: Okay.

Senator Susan O'Keeffe: And there's a summary that was written ... I think, it was sent to William Beausang and the Tánaiste, written by Michael Manley.

Mr. Brian Cowen: I have them in front of me, yes.

Senator Susan O'Keeffe: Okay. Okay, so, what I'm trying to assess was that at the very least, this would've been-----

Chairman: It's in a book.

Senator Susan O'Keeffe: Yes, thank you. I'm sorry. At the very least, Mr. Cowen, whatever might've happened prior to that, this was a serious document, I think you might agree, a confidential document setting out some of the dilemmas and saying, really, that nothing was likely to change in the next few months, that things were, if anything, going to get worse. So, I'm trying to establish whether you, as Minister for Finance, looked at that and thought, "Okay, that's serious. I ... there are people I need to talk to. I need to set up my own, if you like, emergency team and in fact-----

Chairman: You need to get to a question now, Senator.

Senator Susan O'Keeffe: That's the question ... is, what ... what did you do? I mean, and just ... might I add-----

Mr. Brian Cowen: Can we move ... could you move down because it's showing the three pages ... down ... keep going-----

Senator Susan O'Keeffe: -----that Mr. Cardiff did tell us he was part of a secret team-----

Mr. Brian Cowen: Keep going.

Chairman: Okay, keep going.

Senator Susan O'Keeffe: -----of people.

Senator Sean D. Barrett: Is that Johnny Logan's?

Mr. Brian Cowen: Yes, sorry, yes, hold it there now. Yes, well, in relation to this, I mean, the question of liquidity risks and interventions coming into play were being discussed at the ECOFIN, at the Eurogroup, we were having our own issues coming up nationally. This document was sent over to the Department to tell us what their assessment of the situation was. I can see down at the bottom "Contingency Planning Arrangements":

> The Central Bank and Financial Regulator continue to liaise with the Irish banks closely at CEO level and are monitoring the position very closely. The banks in turn are working intensively to implement contingency arrangements to meet their liquidity requirements.

So that, if you like, was an updating by those who were active in this field, dealing with the banks, telling us where things were at and we were ... obviously, they would be liaising with our people, Kevin Cardiff, who would keep me informed as things were developing. I didn't have to set up another separate emergency arrangement. And it wasn't defined as "an emergency arrangement", by the way, it was a question of them liaising, as they say, with the Irish banks at CEO level closely - the regulator and the Central Bank. This is where the interface with the banking system took place. They were the people who were dealing with it. They were the people who had the micro-prudential responsibility. The financial stability issues were with the Central Bank. Our people were being kept informed as to what their ... what were they doing to make sure the Irish banks, at CEO level, were working closely with them to maintain liquidity in the system. And if we hadn't got to crisis situations at that ... I mean, there was a tightening of - this happened over a period of 12 or more months - there was a tightening of liquidity, a reaction that was taking place as a result of the subprime issue in the States becoming more obvious, having wider second-round effects, etc.

Senator Susan O'Keeffe: So you didn't feel the need yourself to have any additional hands-on piece? You felt that that was sufficient?

Mr. Brian Cowen: My contact person, departmentally, was Kevin Cardiff, who was in constant contact with these people. You don't need to set up parallel structures just to say, you know, "Minister's having a meeting"; this was being dealt with by the people in the front line and I was being kept informed generally of it.

Chairman: Okay, thank you very much, Senator. I'm just going to move to wrapping things up. Mr. Cowen, I just want to come to ... I just have one particular question there.

If I can, it's ... I just want to direct you to a document ... it's actually an engagement that you had with the finance committee back in 2007 - it'll be a public document, I just want to familiarise you with it for a moment - it's ... in March 2007 during a public hearing in front of the finance committee, you presented your opinion of the European Commission and I think it's there on paragraph ... yes, the middle paragraph there:

> The Commission considers that the main budgetary risks relate to a potential sharp downturn in the current high levels of residential construction and property prices [and I think about two paragraphs down, you start talking about counter-cyclical policies and] I should explain that under the pact, member states which are already at their medium-term budgetary objective should endeavour to avoid implementing pro-cyclical policies or an expansionary fiscal stance during [the] economic good times.

This is the general kind of reporting that a Finance Minister would give to the finance committee. However the ... in this regard, and it was also presented ... you also presented the ECOFIN Council statement that Ireland should avoid pro-cyclical fiscal policies, as I mentioned, in the coming years. Considering this, and considering the budgets in 2006 and 2007 had been driven by rather pro-cyclical measures, how do you feel about ECOFIN's Council statement at that time? Was there a similarity and a congruence between what was being said in ECOFIN and the budgetary positions you were taking or was there a marked difference?

Mr. Brian Cowen: No, I just think that, you know, obviously they were ... that's a, sort of, an economic orthodoxy that's quite prevalent; where you have growth, make sure you have counter-cyclical policies. Our position was that we ... were at a particular stage of economic and social development where if we just go with the orthodoxy of this, we're basically condemning ourselves to increasing unemployment, lowering growth rates and not putting in place the building blocks we needed to guarantee long-term competitiveness. So there was a period of three or four years where we were saying, "You know we need to do this now, we can't step back and miss an opportunity where on the basis of healthy revenues we can get some work done here that would otherwise not get done."

The other point I'd make is that, you know, the ... you look at article 6 in the Wright report and you look at the EU assessments of our budgetary strategies, I mean ... they make reference to some things like this but they're also broadly positive because they know that the position of Ireland in terms of its growth, in terms of its flexibility of its labour markets - which was a big bugbear for the EU with other EU member states as a barrier against increased employment - and a whole range of other areas they were very happy with what Ireland were doing, and as I say, were pointing it out as a country to be looked at by others in terms of the model that we were trying to refine. It wasn't saying we got everything right, but certainly the progress we had made, and the convergence on average EU living standards that we had achieved in a relatively short space of time, was regarded as a major national advance.

Chairman: There is phone interference there and I don't think it's from myself.

Mr. Brian Cowen: It's not me either, I've turned it off.

Chairman: All right, thanks. If I could just come down to the ... I'd say it's somebody calling you for your dinner, just like myself Mr. Cowen. But the very, very last section of that paragraph it says: "In this regard, the Council opinion includes an invitation to Ireland, in common with a number of similarly [based] member states, to avoid pro-cyclical policies in the coming years." So this is very much the discourse at that time. In reviewing that period, and in terms of the action that was taken, Mr. John Moran was before the committee just a couple of weeks ago and if I can just refer to the very opening ... the very first page of his opening statement to the inquiry. It is coming up there. And his review of this period is, if you go down there under the section heading A, and I think it's the fourth paragraph down, hold it there:

> But the sad reality is that an acute lack of fiscal capacity at Governmental level removed flexibility in easing the impact of those problems. The fiscal rectitude we are experiencing since, was a necessary result of the terrible and perilous structure of Ireland's fiscal profit and loss (or if you like taxes and spending).

He then, two paragraphs down again:

> This all should not be forgotten. Annual current spending (sadly, recurring) and reductions (again, recurring) in the annual taxation burden had been set at levels out of all appropriate relationship with the quantum of sustainable revenues of the state in the early years of the 21st Century.

How does that square with your analysis of what was happening?

Mr. Brian Cowen: It doesn't square. He obviously has a different view. He served a different master, put it that way.

Chairman: You would just say that this is a matter of a difference of opinion, regardless of what might be on the spreadsheets or anything else like that?

Mr. Brian Cowen: Well, you know, this hindsight analysis, where people are able to identify and explain to you what happened and why what you were doing beforehand wasn't right, even though at the time they had nothing to say about what we were doing, and, secondly, that we had a mid-term review that was predicated on growth, which was that the consensus view at the time, you know, let's be honest here, there's an event of such seismic impact which took place that had a big effect on our economy and on our people, which we all deeply regret. Now, I'm not saying previous Governments, or the ones I served in, got everything right, but we got a lot more right than maybe he's prepared to give us credit for, too.

Chairman: Mr. Cowen, I was very conscious of your comments - and this being my last question to you - very conscious of your comments this morning where you were very aware of decisions that may be required as to how they would impact employment levels and your ambition for full employment in the country, about how adjustments would impact upon people in their day-to-day lives and you gave a very colourful image of a pensioner with an extra €5 their pockets and so ... as well. But this does raise the question that I'd like to ask you: did the decision not to implement difficult but short-term decisions during this period, ultimately, result in the long-term requirement for much harder and difficult decisions to be made?

Mr. Brian Cowen: No, we weren't afraid to take difficult decisions, we were prepared to take ... what we ... our position was that we wanted to invest in our skills, invest in our people, invest in public services and invest in infrastructure to qualitatively change the platform from which Ireland could compete in the future. That's what we were doing. My Government ... I've served in Governments at various times, there's never been a fear to take difficult decisions when we felt that was necessary. We felt that the priority was to build the productive capacity of the State at that particular juncture and there was sufficient optimism and positivity about what the future economic growth prospects were to justify that. It wasn't meant to be one that would be sustainable out into the future because you'd obviously have to adapt to a lower growth rate trend thereafter. But its was about ... genuinely about making sure that we didn't take a view that, where the bottlenecks that were coming up in the economy were allowed to stay there ... and that would undermine your ability to compete in the future. There comes a time, sometimes, where you just have to go and make the investments. And we had ... you've got to remember, as I say, democratic governments have to be mindful of the legitimate expectations of their people, that we had, for various reasons in the past, not been able to consider doing things that needed to be done. We know that this ... this society was one that was undergoing huge social change then - and it continues today - and that brings about different house formation policies that's required to meet the diverse needs of different families in our society.

So we were moving, transitioning from a low-wage to a high-wage economy. Yes, I agree that there was an issue in relation to lending growth but that lending growth was a result of an economy driving forward. When the crash stopped, lending stopped. But we always, you know, were of the view, that this was an opportunity that could not be missed. And, I agree, that, you know ... and, by the way, in relation to the turnaround, we were the Government *in situ* that made the changes - made huge changes - at great, perhaps, difficulty for the people but it had to be done. Because all of us ... I don't distinguish the Government I led from this or any other Government. Every Government goes out to do its duty by its best lights based on the circumstances it's confronted with. All of us have a hope to see the State and the country improve and I believe we are getting back onto the right track. And it's as a result of the work of successive Governments that that happened and I'm glad - even if I'm not in power or I no longer have a political career - I'm glad that this country is getting back where it needs to get to. But I'm also very satisfied that the Government I led took whatever decisions were necessary, regardless of what was going to be the outcome politically. That wasn't the issue. Things were so serious, the right thing had to be done even if it meant a heavy price had to be paid. That's no ... it doesn't matter. In the overall scheme of things, that's not really relevant, to be honest. What's relevant is that we had sufficient response in our society to say, "Look, if it means going back to standards of living of 2004, we'll do it." If it means, because of our expenditure, our tax levels were back to 2003 levels so that we can come again in the future and progress again, that's the right thing to do and thankfully, the people, despite the hardships, could see that bigger picture - that if you didn't do it, if you delayed making these decisions, yes, the adjustment you'd have to be making would be even greater and might be even more difficult to manage. And I think that's a lesson to be learned and as I say, I want to reiterate again that if it's a fact that any acts or omissions of mine have caused any hardship to any person in this country, I deeply regret that.

But our motive and our purpose at all times was, in fact, as I say, to see an ambitious improvement for people. And when something like this hits, you have to change course completely. I did my duty as I saw as best I could and I'm sure it's something that we can return to when I come back tomorrow ... next week.

Chairman: Thank you. I'm just going to bring Deputy McGrath and Deputy Phelan in to close matters and any final comments you wish to add yourself, Mr. Cowen. Deputy McGrath.

Deputy Michael McGrath: Thank you, Chair. Mr. Cowen, would it be fair to say that in the pre-crisis years that there wasn't a full realisation of the interdependent relationship between construction, property, banks and the public finances? And I say that in the sense that when the banks got into liquidity problems initially, construction and property sector collapsed, led to a massive capital shortfall in the banks with obvious consequences for the public finances with the collapse in the revenue stream. And in light of the fact that, ultimately, down the line, it led to a deficit of €19 billion, an underlying deficit, when you strip out the costs of the banks which was 19% of a deficit, would it be fair to say that interdependent relationship in the pre-crisis years, just wasn't fully realised?

Mr. Brian Cowen: Yes, I think that's fair enough. That's a fair comment.

Deputy Michael McGrath: In the late 1990s, your predecessor, Minister McCreevy, reduced capital gains tax famously from 40% to 20% and it remained at 20% until late 2008. And when you look back now in view of the amount of land speculation that was going on in 2004, 2005, 2006 and 2007, the investment properties, for example, the way in which all of that was feeding into house price growth, do you think that that's a tool that could have been used putting capital gains tax, perhaps, back up as a measure to cool down the market in some sense in respect of land and speculative housing investment?

Mr. Brian Cowen: I'd have to reflect on that ... whether that ... that in itself would have solved ... would have done the job that you suggested it might have done. Looking back now you'd say, whatever you thought would ... needed to be done to avoid where we ended up, I have no problem implementing or going with. But to be honest with you, it's a hypothetical that I haven't reflected on sufficiently to give a cogent answer.

Deputy Michael McGrath: Just a couple of things I have to tidy up from earlier on in terms of the graph was put up a number of times of the June budget strategy memo, the red and the blue columns showing the actual budget outturn on social welfare and tax packages being significantly above the June memo levels. Can I ask in that context, Mr. Cowen, do you feel that you were sufficiently advised of the potential damage of this expansionary budgetary policy at a time when monetary policy was very loose and credit was also growing at a rapid rate in the economy?

Mr. Brian Cowen: I was adequately advised, I mean, in terms of what the risk scenarios would be. But I mean, I also make the point that, you know, you have to assess those risks and you have put them against your policy priorities and what you feel is necessary to address the needs of the people you represent, the country you're leading and the country you're seeking to serve. So ... and you stand or fall by those judgments. And the people made their judgment very clear in 2011. But, I mean, all I'm saying is, there was a very plausible policy position, there was a rationale behind what we were doing and in the absence of what ... of an international financial crisis, I believe that it would have proved in time to have been the right approach. It would, I accept, require an adjustment and a reduced rate of spending growth thereafter, but there were certain basic building blocks that had to be put into that system, in my opinion, to have a range of Government, public services on basic issues like health and education that people were entitled to expect and there was also a need on the infrastructural side to make the public capital investments to deal with the economic bottlenecks that were actually compromising our ability to compete in the future.

Deputy Michael McGrath: Just to clarify, when you got to your feet in the first week of December to present the budget - that June budget strategy memo - did that still represent the official advice from the Department, despite all the jockeying that had happened in between June and December? Was that still the most current advice, as such, from the Department as to how to frame the budget for the following year?

Mr. Brian Cowen: No, I think, you know, in good times ... as I was saying to you, one of the problems ... the bigger problem than having a current budget deficit for a Minister is having a current budget surplus. And in many respects, the Department of Finance would put the most conservative possible proposal. This is how it was viewed by colleagues anyway, in June in the knowledge that there would be negotiations around that going forward. Now that I have ... I accept that that's not the best practice but, in the context of where we were at, I think that's an explanation, or an indication, to you of what the role that Finance were playing at that time in trying to keep a brake on expenditure way beyond what they would regard as acceptable.

Deputy Michael McGrath: And very finally, and again, we dealt with this earlier but just to clarify a point on the financial stability reports and any difference between the content of the report and the verbal message conveyed to you by the Governor in the meeting that you would have had, because some, you know, some possible discrepancy may have emerged in evidence and it's a line that we need to deal with. Was there any difference between the verbal message conveyed to you by the Governor and the emphasis he might have placed on certain elements in the financial stability report as opposed to the published report itself and the tone of the published report? Was there any material difference in your view?

Mr. Brian Cowen: No, there was no disowning ownership of the report. I mean, the report was the view of the Central Bank. If there were, as I say ... if he felt that there were other things that needed to be added, not because he wouldn't put them in the report but because there may have represented a minority or single view, you know, he would do that. He was ... I found him very fair in that sense to everybody, including, you know ... so I don't ... he didn't come in with a, sort of, approach that I'll just tell ... I'll give this guy a piece of the picture. He gave the full picture comprehensively in a very professional fashion.

Deputy Michael McGrath: You never felt you were getting a different impression from the meeting to the report that you had, presumably, read?

Mr. Brian Cowen: Well, I didn't know, Michael, I didn't know what went on at this meeting. You know, I don't know what went on at the Central Bank meeting. If someone is complaining, "Oh, we were told, 'Don't put that into the Central Bank', you can tell him that directly". What I'm saying to you is, you know, in 2005 and 2006, he would explain the downside risks. It wasn't, sort of, come in and have a five-minute chat. He'd sit down and go through it methodically and bring you through it, as you would expect him to. And there were times maybe when he would emphasise something and I would have thought, "Well, is it that strong on that side?" But he'd explain, you know, so I just want to say ... I don't want anyone to get the impression that he was any way blasé about reporting to his Minister. He wasn't-----

Deputy Michael McGrath: You'd read the report-----

Mr. Brian Cowen: You know, I don't know what went on at the Central Bank meeting. If someone is complaining, "Oh, we were told, 'Don't put that into the Central Bank', you can tell him that directly". What I'm saying to you is, you know, in 2005 and 2006, he would explain the downside risks. It wasn't, sort of, come in and have a five-minute chat. He'd sit down and go through it methodically and bring you through it, as you would expect him to. And there were times, maybe, when he would emphasise something, and I would have thought, "Well, is it that strong on that side?" But he'd explain, you know, so I just want to say ... I don't want anyone to get the impression that he was any way blasé about reporting to his Minister. He wasn't-----

Deputy Michael McGrath: It was consistent with the report-----

Mr. Brian Cowen: Yes.

Deputy Michael McGrath: -----is that what you are saying?

Mr. Brian Cowen: Yes.

Deputy Michael McGrath: Okay, thank you.

Chairman: Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Mr. Cowen, just a couple of clarification matters on questions that I asked earlier and I'm not trying to be repetitive but I just want to get things straight in my own mind. The night of the dinner in April 2008. I think you said in response to me that one executive made comments about the Anglo business. Who was the executive and what were the comments?

Mr. Brian Cowen: I can't recall, to be honest. It was, sort of, a ... he got up from behind the table, stood back to say ... to mention ... to talk about this in the ..... It was a presentation of ... in general terms. It wasn't an in-depth analysis of the bank.

Deputy John Paul Phelan: And again, just for clarification, Mr. Cardiff has given evidence that it was around that time that Mr. FitzPatrick was floating the idea of a guarantee, whether it be political or otherwise. There was no discussion on that night, or was there, on that possibility?

Mr. Brian Cowen: No, not at all.

Deputy John Paul Phelan: Again, in relation to your dealings with Mr. Gray, can I ask you ... I can't get into obviously today the phone call on the night of the guarantee itself. I'm not going to go into it. But I do want to ask: did you seek his advice on a systemic threat to the financial sector or, indeed, specifically, difficulties concerning any individual institutions when you were Minister for Finance?

Mr. Brian Cowen: I don't believe so, I don't believe so.

Deputy John Paul Phelan: Okay.

Mr. Brian Cowen: There was no set time or a period where I would meet with Mr. Gray or whatever but from time to time contact would be made, and general discussion would be had. It's not ... it wasn't a formal arrangement; it could happen from time to time.

Deputy John Paul Phelan: Okay. I want to ... I suppose a continuous thread from this morning and this afternoon is that you have presented, and I don't have any reason to doubt you, when you were Minister for Finance that you took a very hands-off approach in relation to prudential regulation matters, and that, you know, when the ... Senator O'Keeffe questioned on contracts for difference, that it was handed to officials. I can't remember whether you said the regulator or the Central Bank, and again when the systemic problem, which was discussed by Deputy McGrath and myself earlier, that ... it was dealt with by the domestic standing group. I would have been in the Oireachtas with you for a long time at that period. You would not have been known, and I don't mean this in any derogatory sense, as a Minister who was hands-off. Do you regret now, looking back, that you didn't, when these warnings were being raised, that you didn't take a more direct, hands-on approach? And would you change it, if you had that time back?

Mr. Brian Cowen: It's not a question of being hands-off. It's a question of ensuring that those who have the statutory responsibility from the Oireachtas to deal with these matters are informed of any information that comes to your attention so that they deal with them. You're then entitled to presume that they will be dealt with competently and professionally.

Deputy John Paul Phelan: And notwithstanding that, though, your role as Minister-----

Mr. Brian Cowen: There is a role then, just to make the point, as to what can be referred back to from a regulatory process like that based on whatever it is, section 33AK of the banking Acts, whatever it is, regarding confidentiality. I mean, these are the constraints, legal issues that have to be respected in this context. And it's not that you're hands-off. It's a question of knowing, you know, what is the remit of information that's available to you, given what is the legal position regarding banking law in the country. Now, as I say, the best way to deal with any issue like that when it comes up is to make sure that you get the people who have the statutory authority to deal with it immediately. They have an independent status given to them by the Oireachtas for good reason to avoid arbitrary intervention by anybody, including public representatives. And I don't want ... I didn't want any suggestion to ever emanate from the way I handled business that I was in any way seeking to influence the work of independent regulatory authorities. You can't have that. It's a very bad principle from which to operate.

Deputy John Paul Phelan: Well, my final question then is: do you feel, in light of that explanation, that while you were Minister for Finance that the Central Bank or the regulator, or both, let you down in terms of the advice that they were giving you, and in terms of, you know, the role that was given to them by the Oireachtas to perform, which ... they didn't identify the looming crisis which really emerged in the time after you ... or came to a head, I suppose, in the time after you left the Department of Finance?

Mr. Brian Cowen: I made it very clear, Deputy, when I was ... in my opening remarks, as to where ... what my position is in relation to this matter. Nothing I say ... I'm not here to pass judgment on anyone else and, hopefully, be harsher on myself than anyone else. But, you know, that quote I gave you from the Nyberg report I agree with: "People in a position to make decisions are, and must be, ultimately responsible for them, regardless of what advice or suggestions they receive." So regardless of what advice, you can't, as an exercise of accountability, pass on that responsibility to anyone else, and I ... as it says, the higher and more influential their position, the greater their responsibility. I'm prepared to live by that principle on these issues.

Chairman: Thank you very much, Mr. Cowen. Thank you, Deputy Phelan. I'm now going to bring the matter to a close. I know you're back here with us next week, Mr. Cowen. If there's something you'd like to add now, I'll accommodate it, or if you wish to just recommence next Wednesday, that's okay with me too.

Mr. Brian Cowen: I think I'll hold off 'til next Wednesday.

Chairman: I'm glad you said that. Okay. So, with that said I'd like to thank Mr. Cowen for his participation here today, and for his engagement with the inquiry. The witness is now excused until Wednesday, 18 July when we will recommence our engagement with Mr. Cowen. So, I now propose the meeting is adjourned until 3.30 p.m. on Tuesday, 7 July 2015. Is that agreed? Agreed.

The joint committee adjourned at 7.35 p.m. until 3.30 p.m. on Tuesday, 7 July 2015.