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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Déardaoin, 16 Iúil 2015

Thursday, 16 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.

Deputy John Paul Phelan: Finally, are you at liberty to divulge the categories of bondholders that were being discussed in those meetings with Mr. Buchheit or, indeed, the institutions that might have been ... been discussed? I don't want to walk you into-----

Mr. Pádraig Ó Ríordáin: Well, no, it wouldn't have been ... I mean, this was just part ... I think, I wouldn't overestimate the discussions with Mr. Buchheit in truth. This was just part of the discussions in relation to would senior ... could senior bondholders contribute to the outcome? And that was just one part of the conversation. That conversation obviously went on for a much longer period than that.

Deputy John Paul Phelan: Okay, thank you.

Chairman: Thank you very much. With that said, I'll just invite Mr. Ó Ríordáin and Mr. McCague ... if there's anything further you'd like to add or by closing comment or anything else.

Mr. Pádraig Ó Ríordáin: I don't think there's anything that we would like to add, Mr. Chairman, except to thank you for inviting us here today.

Chairman: Mr. McCague?

Mr. Eugene McCague: No, thank you.

Chairman: With that said, I now propose so that we actually suspend. In doing so, I'd like to thank Mr. Ó Ríordáin and Mr. McCague for their engagement and participation with the inquiry today and to formally excuse the witnesses. I propose that we come back at 3.10 p.m. to commence our next session this afternoon, just to facilitate matters in between now and then. Is that agreed? Agreed.

Sitting suspended at 2.21 p.m. and resumed in private session at 3.18 p.m. Sitting suspended at 3.21 p.m. and resumed in public session at 3.27 p.m.

Department of the Taoiseach - Mr. Bertie Ahern

Chairman: I will now call the committee back into session, is that agreed? Agreed. In our public hearing this afternoon is with Mr. Bertie Ahern, former Taoiseach. The Committee of Inquiry into the Banking Crisis is now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off please?

Today we continue our hearings with senior members of the Government who had key roles during the crisis period. This afternoon, we will hear from former Taoiseach, Mr. Bertie Ahern. Bertie Ahern was a TD from 1977 until February 2011. He held several senior positions in Government, including that of Minister for Finance. He succeeded John Bruton as Taoiseach in June 1997 and continued to serve as Taoiseach until his resignation in May 2008. Mr. Ahern, you are very welcome before the committee this afternoon.

Mr. Bertie Ahern: Thank you.

Chairman: Before hearing from the witness, I wish to advise the witness that, by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease

giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. 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 right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed.

The witness has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So, with that said, welcome again, Mr. Ahern, and if I can ask the clerk now to administer the oath to Mr. Ahern and we will commence proceedings.

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

Mr. Bertie Ahern, former Taoiseach.

Chairman: Once again, Mr. Ahern, thank you for being before the committee this afternoon. If I can invite you to make your opening statement to the committee, please.

Mr. Bertie Ahern: Thank you, Chairman. Chairman, I make this statement on foot of your request to assist you and your colleagues in your deliberations inquiring into the banking crisis. You requested that I address certain issues from my position as Taoiseach during the 28th, 29th and 30th Dáileanna. For my record, my tenure as Taoiseach over the time extended over three Governments: from 16 June 1997 to 6 June 2002; from 6 June 2002 to 14 June 2007; and 14 June 2007 to 7 May 2008.

You requested I address a number of specific topics in my evidence which are of interest to the inquiry. The first one is the nature and effectiveness of the operational implementation of macroeconomic and prudential policy. The available evidence supports a strongly positive conclusion under this heading. The main economic problems facing Ireland in the mid-90s were high unemployment, net emigration, relatively low incomes and the need for increased productivity. A decade later these problems were substantially solved. GDP growth in real terms averaged about 7.25% in the decade or so to 2006, and the corresponding rate of growth in GNP was nearly 6.4%. Such rates of growth were substantially above those experienced in other EU member states, and indeed throughout the OECD area of the time.

The 2005 annual report of the National Competitiveness Council reported that Ireland's rate of growth in this period was more than double that of the US and triple the average rate achieved by other eurozone countries. They also noted that labour productivity had been growing by 5% per annum and that the taxation and regulatory systems had developed to become key competitive strengths of the economy. Furthermore, with Government investment in infrastructure being significantly higher than in other developed economies and countries, a previously important and long-standing weaknesses was being addressed. As a result of these devel-

opments, employment in Ireland increased from 1.38 million in 1997 to over 2 million by 2006, and the unemployment rate declined from 10.3% to 4.3%. Net inward migration accelerated from 19,000 per annum in 1997 to 70,000 per annum a decade later.

A key indicator of the progress that was achieved in this period was that by 2007 the National Competitiveness Council would report that Ireland was ranked fourth in the world in the UN's human development index, based on strong improvements in income per capita, life expectancy and educational levels. These achievements were made against an international background of a slowdown in growth in Ireland's main export markets from 2001 to 2003, and ongoing fears of a steep decline developing in the United States.

Furthermore, at home the aggregate fiscal position was managed in a highly conservative, prudential way. Thus, total Government expenditure as a percentage of GNP actually declined from 39.8% in 1997 to 39.2% in 2007. Government gross current expenditure as a percentage of GNP fell from 36% to under 33%, facilitating expansion in capital spending from 3.6% to 6.3% of GNP in that decade. The overall Government balance rose to a surplus of over 6% of GNP, from 1.3% a decade earlier in 1997. And finally, to seal this point in relation to prudential financial management, it should be emphasised that the Exchequer debt/GDP ratio fell from 63.6% in 1997 to 25.1% in 2006.

Budgetary policy was successful also in addressing social inequality. For example, in the quarterly economic commentary of December 2004 the ESRI concluded:

In terms of income redistribution, Budget 2005 has been strongly progressive in terms of the direction of tax measures, social welfare payments and the absence of indirect tax increases. As regards the Budget's overall fiscal stance. The most appropriate indicator of the budgetary position is the general government balance (GGB), which we forecast to move from a surplus of 1.1 per cent of GDP this year to a deficit of 0.6 per cent of GDP in 2005. This expansionary fiscal stance may not be inappropriate given that there are potential downside risks to our forecasts over the next few years.

A year later, writing in the quarterly economic report of December 2005, in an article entitled *Future Irish Growth: Opportunities, Catalysts, Constraints*, Professor Frank Barry of UCD concluded as follows, "It is suggested here that if Ireland can continue to attract substantial [foreign direct investment] and the labour pool necessary to man it, further convergence on US income per head – which remains well above that of the EU 15 – should be [available]."

Clearly, Chairman, Ireland has been extremely effective in attracting FDI. At the heart of that success is the operational effectiveness of IDA Ireland, the agency responsible for implementing Government policy in this area. And, for example, the *IMD World Competitiveness Yearbook 2008* ranks direct investment flows to Ireland at \$10.79 billion and 4.22% of GDP as the two most significant improvements in competitiveness of Ireland in that year.

On the second question, Chairman, the appropriateness of expert advice: when it comes to expert advice and high-quality economic analysis, the Government have a wide range of sources available - international organisations - including the European Commission, the IMF, the OECD and financial ratings agencies like Standard and Poor's and Moody's. Each carry out independent assessments of macroeconomic and prudential conditions in Ireland, and for the most part these are undertaken about annually and usually highlight what, in their view, are the prospects facing the economy, and the policy initiatives that were required to prioritise to optimise economic performance on a sustainable basis. These organisations have the advantage

of having international perspectives, and the insights they provide are especially valuable when considering economic conditions and prospects in a comparative context. In other words, they enable us to judge performance relative to countries with whom we compete. This comparative perspective is obviously very useful from the point of view of assessing if Government policy is on the right track.

At national level there are several organisations, funded or part-funded by the Exchequer, such as the ESRI, NESC, Forfás and the Central Bank, which through their regular publications and studies on particular aspects of the economy, provide valuable and continual monitoring of economic performance at macro and sectoral level, and with respect to individual policy initiatives undertaken or proposed by Government. Increasingly, in recent times, domestic financial and professional services providers have also devoted increased resources to economic analysis, policy evaluation, commentary and economic forecasts. And while the research of these organisations focus primarily for the benefit of their own clients' bases, it can provide useful insights for policy development and evaluation in public policy terms.

I would like to also mention under this heading - which is in my report, but I won't read it, but it's in the report - the elaborate annual process of soliciting and evaluating pre-budget submissions from interested parties and individuals by the Department of Finance. This process provides a broad platform from which Government can elicit ideas, potential initiatives and amendments to existing schemes to improve budgetary formation. In addition, it's always open to Ministers, on the advice of their Departments, to solicit interest from external consultants with respect to particular issues or problems which are foreseen developing. Furthermore, there is well-developed public tendering processes in place to facilitate the public service in procuring the most appropriate level of expertise at fair value for taxpayers.

In overall terms, therefore, I hope the committee of inquiry can see from my remarks that aside from economic advice available from the permanent Civil Service, in particular the Department of Finance, there is a very wide range of sources of advice, both from an international and domestic focus, which allows Government to draw a synthesis which one hopes of course is balanced and gives due consideration to the very wide range of views that is inevitably brought forward in such a process.

Obviously I am not going to present a comprehensive review of the policy decisions that were made in this period, nor the inputs to those decisions. However, I think it's important that the committee takes due recognition of the information that was available when the decisions were being made to counteract the retrospective narrative that has developed with the benefit of hindsight over the years since the crisis first began to manifest in 2008. To this end, the table included summarises IMF forecasts and results for real GDP percentage growth in Ireland as published in the World Economic Outlook over the period 2004 to 2009. The WEO is published in spring and autumn and data from successive publications are shown in my statement.

It can be readily seen, Chairman, that the crash was not foreseen by the IMF, who only realised their outlook when the slowdown was well and truly at hand. For example, as late as autumn 2007 the IMF was forecasting that the Irish economy would grow at 3% in 2008 after inflation is deducted. Even when it became clear that there was a severe global downturn, the IMF forecast in late 2008 that there would be no more than a marginal fall of 0.6% in real GDP in Ireland in 2009. This data indicate the information that was available to decision makers at this time, and the conclusions are clear: even an organisation such as the IMF remained convinced that Ireland's economic expansion was sustainable.

Inevitably, of course, there were stresses and strains associated with rapid expansion in economic activity. The most noted and commented upon at the time was the growing importance of the construction sector in the Irish economy. At some stage, this growth would inevitably ease. For example, the ESRI medium-term review of 2003 noted that, and I quote, “At some stage over the coming decade, when the demand for housing has been largely met, it is likely that prices will fall to levels closer to the European Union average, and this will be the signal for a winding down of capacity in the sector ... the inevitable process of adjustment to lower demand [for building and construction output], which is still some way off, will prove painful for the sector”. In other words, market forces, which had driven up prices, had led to increased economic activity. However, as supply rose, some of the increase in prices and activity would be expected to be reversed and this was expected to occur at some stage during the years 2003 to 2013. In its subsequent medium-term review in 2005, the ESRI noted that no slowdown was seen and there were ... there was “a growing aura of invincibility about the Irish economy”, with consumers showing a “high degree of certainty about the future”. And, while, with the benefit of hindsight, this can be interpreted as unwarranted complacency, the ESRI went on to conclude that the “fundamental factors driving the Irish economy ... remain quite favourable”. A note of caution was sounded but the subsequent analysis, which comprised a high-growth and a low-growth scenario, was based on alternative assumptions regarding the impact on Ireland of what were described as “global economic imbalances” which could lead to the US economy slowing considerably and experience a painful adjustment. Chairman, to an extent, this is what subsequently transpired. The forecast based on this scenario was that Irish growth would slow to 3.5% per annum in the years 2005 to 2010 and 3.1% from 2010 to 2015. Unemployment would rise to about 7% in the early years of the slowdown before falling back to the 2005 level of 4%, while the public finances would remain broadly in balance. Of course, if the US economy did not suffer this painful adjustment, then Irish growth rates were forecast to be higher. The implication is that no homegrown crisis was foreseen and even an imported one would have relatively mild effects due to the fundamental sound nature of the Irish economy.

These examples are provided here, Chairman, simply to illustrate what was available to policy makers and it’s not my purpose to critique these organisations. However, the research and conclusions of these organisations constitutes a major input to policy decisions. Of course, having this research available does not mean that the most appropriate course for policy was always clear. Some divergences of opinion are to be expected, indeed, contrasting views and opinions were encountered. The range of views was always taken into account in reaching policy decisions during my time in office but the synthesis of opinions leading to policy decisions inevitably reflects the conclusions of the vast majority of the research. I believe that this is the correct basis on which decisions should be made. In this respect, it must be noted that the overwhelming and virtually ... consensus during this time was that Irish policy was moving the economy in the right direction, that the economy was on a sustainable growth path that could be expected to slow somewhat in response to changes in fundamental drivers, that the main risk would be traced to developments in external economies and that the dangers posed by domestic factors represented challenges to be managed rather than the first indicators of a crisis, as subsequently developed.

Chairman, I’m ... for time reasons, I’m ... I’m skipping some of the sections.

Chairman: I ... yes, I can certainly ... yes.

Mr. Bertie Ahern: So, to ... to my section with ... on the statement ... the “Context of Budgetary Policy”: In terms of wider budgetary policy and also, maybe, to give proper context

to the issues under discussion, I think it's worthwhile to emphasise that during my period as Taoiseach, Ireland finally caught up with and then surpassed average EU living standards. It was a sizeable national achievement to raise our living standards from a historically low base of two thirds of the EU average. The downturn did have a very hard impact on individuals and families, especially those who lost their jobs and, of course, that saddened me and I wish the recession did not happen. However, it is disingenuous to suggest that all the gains this country made have been wiped away. Between 1997 and 2008 this country thrived, and, not only did Ireland enjoy record economic growth but living standards were raised across the board and this drove social progress. This rising tide was essential in lifting hundreds of thousands of our people out of poverty, to reversing forced emigration, to significantly increasing pensions and child benefit, to modernising schools, health facilities, roads and communications infrastructure around our country and creating well-paid jobs for young people at home. This represented a positive change to the lives of many people and, despite the recession, a lot of this progress is still there, benefiting thousands of our citizens.

I am glad that Government allocated - that I led - huge amounts of money in this period into regenerating traditional areas of poverty, such as Ballymun and Fatima Mansions in inner-city areas, and parts of Limerick, Cork, Waterford and other cities. I am glad we put money into the islands, improving electricity, sewage and building infrastructure and piers and ... in rural areas. Throughout the country, people now drive on better and safer roads. The motorway network that Government supported during my tenure has cut journey times and is a vital economic and social artery of our people. People also travel on better trains, our school and hospitals have more staff working in better buildings. All the time as Taoiseach, what I wanted to do, Chairman, was ... with budgets, was to improve the quality of life for ordinary people and to provide services that our country did not have before. Those who say we squandered the boom forget that in my time as Taoiseach we actually recorded budget surpluses in ten of our 11 budgets. We balanced sustained increases in spending with the need to reduce our national debt. As a result, Ireland paid a billion euro less every year in ... in interest payments.

I want to remind members of this committee that when I first came to the House, in '77, and for ... right through the 80s, our national debt was an unsustainable milestone around the neck of taxpayers. It was a barrier to national progress, as huge sums of revenue had to service interest payments. In 1997, the year I became Taoiseach, 20% of all taxes raised in the State were used to service the national debt. In 2007, my last full year as Taoiseach, that figure stood at 4.3%. During my time as Taoiseach, we continued to pay into the National Pensions Reserve Fund, so that, when the downturn came, we had €20 billion saved which provided some protection when the recession came.

There is zero credibility in suggesting that an open economy like ours could withstand the global recession and the collapse of the global investment banking system. This was not just an Irish experience, it was a worldwide recession that affected America, Japan, Britain and China, and most of the developed economies in the world. In 2007 the International Monetary Fund maintained that Ireland's economic growth would be strong over the medium term. The IMF directors said our economic performance was robust and was supported by sound economic policies. When I left office a year later, the IMF and other financial organisations, such as the OECD, along with national ones, such as the ESRI, were all predicting growth in the Irish economy in the region of 3% for 2009. In June 2009, a little more than a year on from my resignation, they were predicting contraction of between 8% and 10%. That illustrates how unprecedented and unforeseen this global crisis had been and how quickly it took shape.

It is true that we had some warnings about over-reliance on ... on property. But it is important to be clear about the record. In October 2004 the IMF alluded to a possible overheating in the housing market, even though, subsequently, they themselves, and other economic commentators, implied there was no bubble. In the budget two months later, Brian Cowen, the Minister for Finance, announced a review of tax incentive schemes. In the next budget we announced a termination date for all existing property-related tax incentive schemes, with the exception of private hospitals, registered nursing homes and child care facilities. Our stamp duty was already the largest transaction tax on property in the European Union and despite a concerted campaign by some to get rid of the tax, or to reduce it substantially, we refused to go down this route and we listened ... we'd ... if we had listened to those calls, this would have added fuel to the housing market and we would have experienced a far greater difficulties than we ultimately experienced. We were, Chairman, able gradually to remove incentives from the property market but membership of the euro meant that we were unable to raise interest rates. Accordingly ... according to the IMF report in the summer of 2009, the housing boom was caused mainly by cheap credit due to low interest rates, along with rising incomes and a strong demand for housing. There is no doubt that this created a structural weakness in the economy and the international downturn ensured this has turned from a soft landing into a very hard one. I wish this didn't happen and, with hindsight, of course, I would have done things differently.

I did make mistakes, Chairman, I admit that. But, so does everyone who governs. I know that during my time as Taoiseach, while I did not get everything right, I can honestly put my hand on my heart and say I did try my best - my very best - to do the right thing by the Irish people. Of course, I apologise for my mistakes but I am also pleased that I did get a lot of things right. The winds of the greatest international recession since 1929 did batter our country after my departure but now, as that storm abates, it will become increasingly clear that a lot of the progress the Irish people made in the first decade of the 21st century, such as modernising infrastructure, investing in our roads, schools and hospitals has not been washed away. I make these points not to take away from the fact that Government has had to do Trojan work in recent times and that the Irish people have endured many sacrifices in a national battle for economic and social stability. I want to conclude by saying I respect the work done by my successor, Brian Cowen, and the late Brian Lenihan. I also admire the efforts of the current Government and I think the Taoiseach, Minister Noonan and Minister Howlin have shown a lot of commitment and courage in tackling the financial crisis. I think one of the lessons we should all take from the crisis is that, maybe, our politics needs to be less partisan and that, as a small island, we should pull together. The last few years have been extremely tough on many ordinary families and that breaks my heart, but the work of our democratic political system must prevail and the problems we faced on a massive scale of unemployment, emigration and the banking crisis are on track to being resolved. Thank you, Chairman.

Chairman: Thank you very much, Mr. Ahern, and just before I bring in the lead questioners, if I can just can deal with a couple of matters with you first. At the time of handing over to Mr. Cowen as Taoiseach, did you believe that the fundamentals of the Irish economy was sound at that time?

Mr. Bertie Ahern: Definitely, and I believed that all of the indicators from the Department of Finance economic review of 2008 to 2010, from the IMF, the ESRI and all of the others were indicating that we would grow between something from 3% to 5% over the years immediately ahead.

Chairman: And, at any time in the lead-up to that transition, were you aware of any discus-

sions of proposals to guarantee Irish banks?

Mr. Bertie Ahern: Absolutely none.

Chairman: Following your departure as Taoiseach, and in the months preceding the five months between you departing as Taoiseach and the bank guarantee put in place, did you have any discussions with individuals about concerns about the banks or matters relating to any potential guarantee?

Mr. Bertie Ahern: No, I had no discussions. The only one in Government that I would have spoke to in that period of time was ... I did keep in touch with the late Brian Lenihan. I'd a number of general discussions with him but none about the guarantee.

Chairman: Okay, thank you. Mr. Ahern, can I just invite you to look at a table that I'm going to bring up? It comes back to your own testimony with regard to indicators and this shows a huge increase in public service allocations between the years 2000 and 2008, a plus 141% in total expenditure, which was precisely double the growth in GDP over the same period. So what you see there is under the headings of social welfare, education, health, capital investment, total expenditure and GDP, the measurements are there and the figures are as outlined. Can I also bring to your attention another graph that will come up, where when you combine it with the statistics on the parallel major growth in construction-related lending, the bottom, kind of, amber-beige line is standard lending or other lending and the blue line is property lending? And you can see there on the graph it increased quite significantly from, sort of, '01 period peaking into '07-'08 quite significantly. When you look at these two sets of figures alone, were these not enough to warn the Government that a bubble was being created?

Mr. Bertie Ahern: Well, if I could just take the first position - the GNP on the expenditure side - I always, Chairman, looked at what our spending to GNP was and GDP. I tended in my political life, as Minister for Finance and as Taoiseach, to look at GNP more so because of the repatriation of profits but, as you know, in the European Council or in ECOFIN, which I attended for many, many years, it was always GDP. We always had to make the adjustment but, either way, while our revenues were growing, I was always conscious that we should keep our percentage right and if I recall, even on the highest year 2006 or 2007, I think only Estonia had a lower expenditure than us so ... I'd like to go on with, maybe, what a lot of people have said to this committee and say, "Well, expenditure was out of control", but I have to say, Chairman, at the time, I did not see that view because only Estonia had a higher ... and we were way lower than everywhere else. Now, on the other chart, it was quite clear, Chairman, that the property markets - I'm sure it will come up after - but it was quite clear that the level of indebtedness and the lending to the property section was growing dangerously.

Chairman: Okay. Can I just bring another document to your attention and this, I requested, would be furnished in your own evidence book. It is in office of the Minister for Finance, top secret memorandum for Government, Economic and Budgetary Strategy for the 2004 to 2006 period, dated 19 June 2003. It will just come on the screen there now. If I can move on to page 5 of this and right at the bottom of the page, on item 8 there, it says:

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

Given the expenditure that continued after that period, were you cognisant and aware of this

document by the Department of Finance in the decisions that you were making as Taoiseach of this country?

Mr. Bertie Ahern: Well, I would have ... any of the documents that came to Government from the Department of Finance I would have read.

Chairman: Did you read that document at that time?

Mr. Bertie Ahern: That document came to Government. What was the title of that document?

Chairman: The title of the document - this was furnished to you about two weeks ago so I asked for it to be provided before you came in today - it is a top secret memorandum for Government, Economic and Budgetary Strategy 2004 to 2006, 19 June 2003.

Mr. Bertie Ahern: I did, yes.

Chairman: Okay. Reading that line, which is quite significant, it says, "The period of exceptional economic growth enjoyed by Ireland is over." Was that an indication to you that budgetary policy and budgetary expenditure would have to take a change of course?

Mr. Bertie Ahern: Well, Chairman, we did, in my period as Taoiseach ... and I'm sure if we went back to the documents of 1999, we would have seen those comments as well or at least 2000, when we hit the dotcom bubble. I think it was 2001 we started ... or 2002 we were growing at 12% in the first month of the year and we ended up growing by 1% so, in my political career, the ups and down were all the time there. I went through many crises. I went through currency crises when I was Finance Minister, I went through the dotcom ... and the Department of Finance - if we were to take lots of years 2001, 2003 were quite difficult because we had to make several adjustments so that one comment would not of indicated to me that it was at the end.

Chairman: I assume that a lot of people have regular lives, Mr. Ahern, and yourself is no different and you're not watching this inquiry every day of the week, even though it is a bad summer, but the people who have come in and testified here such as Mr. Nyberg and Mr. Wright, Mr. Regling and so forth have stated that the difficulty had grown beyond return in and around 2005 or so, which would, kind of, maybe be in line with what was being pointed out in this document. Would you concur with their view or would you have an alternative view to that?

Mr. Bertie Ahern: If we are talking about the level of indebtedness by the bank-----

Chairman: And citizens.

Mr. Bertie Ahern: But on public expenditure, if you ask me what my view now is or what my view was then-----

Chairman: Well, do you concur with their view because they have looked at it and you can then give us your view then?

Mr. Bertie Ahern: Well, if I can take it first-----

Chairman: Yes, you can, indeed, yes.

Mr. Bertie Ahern: -----my view then was that if I was keeping public expenditure at effectively the lowest of not only the EU countries but certainly far lower than the OECD's countries

because it was that chart and we were lower in GNP terms and GDP; I think only Estonia were lower. I felt that we were safe enough, that we were taking, as I said in my statement, a conservative view. I did not see that as a dangerous view. I did ... I've the different view on the level ... in the level of indebtedness, I'd a different view on that. If you ask me what my view now is, it ... I probably would have battened down the hatches in 1997 and said no to everything, so, therefore, we would have had such a big surplus we would have been like Germany, we would have been able to take the whole hit. But, I'm afraid, Chairman, I wasn't blessed with that view any time while I was in office.

Chairman: Okay, thank you very much, Mr. Ahern. Deputy Pearse Doherty, you've 25 minutes.

Deputy Pearse Doherty: Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an tUasal Ahern.

Mr. Bertie Ahern: Go raibh maith agat.

Deputy Pearse Doherty: Mr. Ahern, it's the second time I've listened and read some of the testimony and maybe you'll start by explaining why parts of your opening statement to the banking inquiry are taken directly, word for word, from your autobiography?

Mr. Bertie Ahern: Because that was my position when I did my autobiography and I haven't changed the position. I'm consistent.

Deputy Pearse Doherty: And the years haven't ... you haven't reflected on those positions here? You're happy with what ... as time passed, you haven't changed your position on it?

Mr. Bertie Ahern: I haven't changed my position.

Deputy Pearse Doherty: Okay. In 2004, very soon after coming into office, the Minister for Finance commissioned two reports on ... to review property-based tax incentives, which had already been extended from 2002 to 2004 by his predecessor. Who decided to commission these reports, Mr. Ahern, and did you support the decision or did you argue for the abolition of these tax incentives in 2004, as was originally planned but never actually happened?

Mr. Bertie Ahern: Minister Cowen suggested them and I supported them.

Deputy Pearse Doherty: Did you argue ... did you argue for the abolition of the-----

Mr. Bertie Ahern: No, I don't ... I don't think I argued for the abolition. Remember, there were about 24, was it, 24 different taxes. Some of them were expensive; some of them were not. Some of them were very beneficial; some of them were dubious whether they were or they weren't. And the view, when Minister Cowen, and I remember him well, he was very anxious to deal with them. It had been a departmental view, I think Mr. McNally has informed you of that, and that was the view of the Department. But I think, as you know, Deputy, from the time a lot of the incentives came in, in the urban renewal in 1986 by the Garret FitzGerald ... the late Garret FitzGerald's Government, they were for ever being extended.

Deputy Pearse Doherty: But they were supposed to cease in 2004-----

Mr. Bertie Ahern: They were-----

Deputy Pearse Doherty: -----they were extended to 2006. Did you support the exten-

sion-----

Mr. Bertie Ahern: I think, Deputy, I-----

Deputy Pearse Doherty: Sorry-----

Mr. Bertie Ahern: Sorry.

Deputy Pearse Doherty: -----did you support the extension of the reliefs from 2004 to 2006, even the ones that you say today that may have been dubious?

Mr. Bertie Ahern: Oh, I support them. I support them.

Deputy Pearse Doherty: And you were aware that-----

Mr. Bertie Ahern: But can I point out-----

Deputy Pearse Doherty: -----the Department-----

Mr. Bertie Ahern: -----I was just going to say that I think I was meant to end some of them back in 1993.

Deputy Pearse Doherty: Okay. Do you believe that they had any effect on creating or sustaining a property bubble?

Mr. Bertie Ahern: If we had the chance again, I think they probably had lived most of their usefulness. I mean, they did a tremendous job. They had ... they did a fantastic job in rejuvenating both the cities and towns of this country, but there probably was a time where they could cut off, but I think it is important, if I can say, Chairman, because I-----

Deputy Pearse Doherty: Sorry, Mr. Ahern, we're on a time limit here and I appreciate-----

Chairman: I'll ... I'll afford you a bit of time.

Deputy Pearse Doherty: If just maybe you could answer the question first, I would appreciate that there-----

Mr. Bertie Ahern: Yes, sure.

Deputy Pearse Doherty: -----which the question is, is do you believe that the extension of these property reliefs to the construction sector sustained and helped create a property bubble?

Mr. Bertie Ahern: Yes, I do.

Deputy Pearse Doherty: Okay, and when did you become of that view?

Mr. Bertie Ahern: It probably would be about 2009.

Deputy Pearse Doherty: Okay. When did you believe that a property bubble was in existence?

Mr. Bertie Ahern: Well, there's a good few definitions of a property bubble but I went with what was the advice all the way through; that if ... our whole focus was on supply all the way. The Central Bank, I should say, had warned us in the first quarter of 1998, that was the first and only time, I think, it was strongly put to me that we were heading for a property bubble.

Deputy Pearse Doherty: So when did you believe personally? We've heard from Central Bank and other agencies over the last number of months in this inquiry; when did you believe personally, as Taoiseach or as ... whenever, that there was a property bubble in existence in this State?

Mr. Bertie Ahern: I don't believe I ever believed it as Taoiseach. I thought we could manage our way through because I knew when we were building 88,000 houses in 2006 and '07, I went with the view that we would get back the 55,000 and, if you take the most conservative view, which is usually the Department of Finance's, which I normally followed, that ... well, can I answer you, please?

Deputy Pearse Doherty: Yes, sorry.

Mr. Bertie Ahern: I believed that that was about 55,000 houses and I believed we could get back to 55,000 houses without doing too much. That was the sustainable level, so ... and we were getting there and I thought, if we got there, then we were ... we were okay.

Deputy Pearse Doherty: So-----

Mr. Bertie Ahern: And I thought that even when I left as Taoiseach.

Deputy Pearse Doherty: Okay. Okay, so in 2006, when you say the boom is getting boomier, what did you mean by that?

Mr. Bertie Ahern: Well, obviously it just ... we were ... we were going up in terms of the number of houses that we were producing, rather than where we wanted to be, stabilising. And the economy was still growing at 6% or 7%, so it was not easing up, which is what we wanted to see happen, particularly on the property side, but I was happy on the other side. There were other sectors of the economy growing very strongly, even to the end, and if you look at 2008, my last period, 28,000 jobs were created. We lost 20,000 in construction and still, just at the time I was leaving, there was a speech, I think, one of the papers, where I was talking about that, that we were actually managing still to create jobs and managing to see it slow down, the construction, and still manage it, so I still thought we could manage it through.

Deputy Pearse Doherty: So you didn't believe that there was a property bubble prior to May 2008 at least, when you left the Office of the Department of the Taoiseach, but you did believe that there was a property boom in 2006 that was getting boomier; is that ... would that be correct?

Mr. Bertie Ahern: Well, I wanted to ... Deputy, I wanted to see it slow down. I had broken my back from 1997 to try to get the supply side ... when I came in as Taoiseach, there was, in the Central Bank's terms, a bubble, or at least shortly afterwards. We had moved from building 20,000 houses in 1990 to 42,000 houses when I came into office. It was believed at that time by all the experts that we needed to get to 50,000 to take the heat out of the market. Everything we did, and the Bacon reports and all of the other efforts that were made, were all to try and get supply up and we believed that if we got supply up, we'd get an equilibrium that would balance the situation-----

Deputy Pearse Doherty: Okay, see this-----

Mr. Bertie Ahern: -----and, you know, that was what we were trying to do.

Deputy Pearse Doherty: Okay. In relation-----

Mr. Bertie Ahern: Unfortunately, it had got boomier when it went over that figure, which was higher than equilibrium.

Deputy Pearse Doherty: Okay. We know from evidence that house prices and construction started to decline in the first quarter of 2007. Can I just talk to you about your speech at the opening of the new headquarters of Treasury Holdings on Monday, 10 December 2007? This was an attendance, just before Christmas, with Johnny Ronan and John and Richard Barrett was there. You talked about the outlook recognises “the difficulties facing the construction sector in the light of recent and ongoing developments in both ... international and domestic economic environments” and you go on to say, “That is why last week’s Budget underscores the Government’s determination to deliver ... its housing commitments under Towards 2016”. You go on to talk about how you’ve increased spending above 16% on the 2007 Estimates for social and affordable housing. You go on to talk about changes in stamp duty regime that were introduced that would significantly improve ... sorry, “provide a significant stimulus to the market by boosting purchasing power generally”. You go on to say how you ... your Government, from 1 January, is increasing the ceiling for mortgage interest relief for first-time buyers, for married people and also increasing income tax relief for rent payment by 11% and increasing the threshold for rent-a-room scheme and so on, “and are continuing with the generous tax reliefs for landlords investing in private rented accommodation”. You go on to say, “Taken together, these measures testify to the Government’s commitment to the [continuing] development of the sector”. Now, is this not you telling a number of developers and whoever else was there that the Government are intent in trying to reflate a property bubble that had already bust?

Mr. Bertie Ahern: Well, what date ... Christmas 2007 did you say it was?

Deputy Pearse Doherty: Sorry?

Mr. Bertie Ahern: Christmas 2007?

Deputy Pearse Doherty: It was 10 December 2007.

Mr. Bertie Ahern: Yes, well I haven’t seen the document but you’ve quoted most of it to me. What we did in the budget of 2007 for 2008, we made a number of changes to try to help first-time buyers. We wanted to keep economic growth going and to keep it strong. And we wanted to stimulate the economy as much as we could to keep it strong. I don’t think we made too many changes that would have made too much difference to most of the developers. And, of course, at that stage we did know since August 2007, once the liquidity problems did start in the banks, that life was getting more difficult. And it did get more difficult but it was based on liquidity. At no stage in those months up to that budget was anybody saying that the bubble was going to bust. And in the discussions around the budget of 2007, or the budget of 2008 in November, October-November, nobody was talking about the bubble busting.

Deputy Pearse Doherty: Yes but, Mr. Ahern, in this speech at Treasury Buildings, you yourself acknowledge the difficulties facing the construction sector. You said, “This is why in last week’s budget we introduced these measures.” You go on to say, “To provide a significant stimulus to the market [which is the construction market],” and you go on to say that, “These measures taken together testify to the Government’s commitment to the continuing development of this sector.” You’re after giving evidence saying that you wanted to see a decline in the number of house price ... or houses from 2006 on and you tried to do that. But you’re giving a different speech to Johnny Ronan and a number of others in December 2007, which is saying that your Government are introducing measures to actually boost demand at that time.

Chairman: Question now, Deputy.

Deputy Pearse Doherty: Mr. Ahern?

Mr. Bertie Ahern: No, I don't think I was giving a different speech because unemployment ... I disagree with the first point you made that it was only in 2007 that property started easing. It was in 2006 and it was generally being talked about since probably the second quarter of 2006 that property was easing up. But unemployment was building fairly rapidly in the construction industry after the summer of 2007 and into 2008. And, you know, there were 230,000 people working in the construction industry, and that day, whoever I was talking to - I'm sure it was a well-attended function, like all other functions you'd attend as Taoiseach - it was necessary to try to keep our construction industry as strong as we could.

Deputy Pearse Doherty: In September 2000, after the publication of the third Bacon report and the adoptions of measures to cool the house price inflation, prices continued to rise. This is the year 2000. And further measures were proposed to you personally via an internal memorandum by the assistant principal in the Department of the Taoiseach to counteract this. One of the recommendations was to impose credit controls on lending. Can you remember if the proposal to impose credit controls and lending via the Central Bank was further discussed with you, or considered by you? And can you tell us why it was never introduced?

Mr. Bertie Ahern: Well, I can't tell you why it wasn't introduced because that was a matter for the Central Bank and the regulator. But I remember the discussions around that and the official that was dealing with those issues in my Department, I think is now Ambassador O'Leary, if I recall correct. And we ... now ambassador ... we gave those views, which was the views of my officials in the Department, to the Department of Finance and the Department of the Environment.

Deputy Pearse Doherty: As ... you didn't do anything else about it?

Mr. Bertie Ahern: Well, I ensured the views, as I always did ... because, as you know, there were meetings between Central Bank and the Department of the Environment about the housing situation on an ongoing basis. I've no doubt that those views went into it. But I did meet the Central Bank Governor on a number of times. I don't believe I raised it with him. But the process of the view of my Department would have been ... and that ... I think that ... when ... that was 2000-----

Deputy Pearse Doherty: 2000, yes.

Mr. Bertie Ahern: Yes, well, I know later on ... but it was far later on when we were talking about the loan-to-value and the 100% issues came up, those same issues came up again.

Deputy Pearse Doherty: Okay. Mr. Ahern, in your statement, you didn't address the key line, 5D, which you were directed by the inquiry to do. So can you now describe the main aspects of the relationship between Fianna Fáil and the building and the construction industry, and give your view on the purposes and outcomes of a substantial number of formal and informal meetings with representatives and leading persons of this industry?

Mr. Bertie Ahern: Well, in my capacity is ... former capacity is, as being president of Fianna Fáil, I think we endeavoured as a political party to have a good contacts with as many sectors as we could, all sectors of industry. But I had a lot of dealings through the social partnership process with all of the main trade union-employer bodies and the CIF were quite a strong

lobby as part of that process, as was IBEC and as were the Chamber of Commerce of Ireland, along with all the farming bodies. So I would have had dealings with them and from time to time, and they were most of my meetings because the CIF group represented, except the House Builders Association, but I don't ... I used to have a lot of dealings with the house builders when as Minister for Finance; I don't think I had too much dealings with them when I was Taoiseach.

Deputy Pearse Doherty: You've like ... you've given interviews in the media about being backslapped by developers on the way into Croke Park and, indeed, there's many other stories. I think Mr. Quinn lent you his helicopter to go canvassing in Donegal at one stage and there's many other stories that appear in the media. And, indeed, actually, one of them if I can refer to, in 2009, as part of the promotion for your autobiography that I've already mentioned, *The Irish Times* on 28 September 2009 reported on one of these interviews that you did, and it said that Mr. Ahern said:

...it was untrue that the Fianna Fáil tent at the Galway races was full of big developers. The best year for the tent was 2005 and only 19 of the 635 people in it on the main day of the races that year, he asserts, could be classified as developers or big builders. Another 30 could be considered builders "and the rest are the fellas you'd get in to do a small job on your house".

So, now we know from the Nyberg report, Mr. Ahern that the aggregate exposure of the top 20 customers as of 31 May, as of the time you left as Taoiseach in 2008, they had 50% of the €41.7 billion loan book. And we know from Nationwide that they had 51%, 25 of them had 21% and we know that the top 25 borrowers had €25 billion between them borrowed at that time from the banks. So, when it comes to the property-State-finance nexus in the State, are we dealing with a small number of developers, less than 30 it seems? But you were quite precise in your interview, about the 19 big developers. Do you have the names of those 19 big developers that attended on that one day on the Galway tent and do you want to share it with the committee?

Mr. Bertie Ahern: I'd say I had when I was doing that interview because I probably had the list of people who were there, but it was no secret, I mean, the Fianna Fáil tent and the Galway Races, or for that matter, for the Listowel races, because the company that you used to work for, the construction company yourself, used to sponsor that. So there was always that connection. Some of them were builders; some of them were tradespeople; some of them were farmers; some of them were other. But there was no big deal. There was literally no big deal between the connections in the Fianna Fáil tent and the construction industry. It was a social occasion and I wish I had been able to influence maybe some of those people but I don't ... I heard your questions previously about this and you seem to have a bit of an obsession with the Fianna Fáil tent, as many people have. But it wasn't any big deal and there was no big business done. And I assure you this, Deputy, I assure you this. And I wish it had been different, that I had known the extent of the exposure from some of those people, and there was some of them, that they had to the banks. Because in the last seven years, as you'd appreciate, I have had good, sensible conversations with many decent people and they believe that not alone did I know the figures but that I had the files, and that I knew exactly what every developer in this country owed and what exposure with the banks. But the fact is, as you know, Deputy, I had none of that information because I wasn't entitled to any of that. That's a matter under AK33, which is totally confidential and only the Central Bank and the regulator had it.

Deputy Pearse Doherty: Can I just inform you, Mr. Ahern, you may not be aware of this? One of the terms of reference of this inquiry is to look into the nexus between property, finance,

the State. And that's why you were directed under 5D2, in your statement, to address that issue. But given, from my view, that you failed to deal with that, that's why I'm asking you-----

Chairman: You have to move on. Careful.

Deputy Pearse Doherty: That's why I'm asking you that ... the questions in relation to-----

Mr. Bertie Ahern: Well, fair enough.

Deputy Pearse Doherty: -----in your engagement with property developers-----

Mr. Bertie Ahern: But I don't-----

Deputy Pearse Doherty: -----and how that possibly could have-----

Chairman: All right, just let the Deputy finish and I'll bring you in then, Mr. Ahern.

Deputy Pearse Doherty: -----that possibly influenced your decisions at a later stage. And that's what the ... some of the inquiry has to look at.

Mr. Bertie Ahern: No, I accept ... I accept that, Deputy. But I ... can I assure you and the committee, Chairman, that I don't believe that I, personally, had much interaction with property developers. I did deal a considerable amount with the CIF. They were one of the social partners. Regularly I dealt with them in the sectoral meetings of social partnership and, as your book of evidence shows, I had a number of meetings with them, not that many, but they did come in to state their case. But in no way do I think any of the political activities of the party I was a member of in any way influenced any of the decisions that we made.

Chairman: Deputy Doherty.

Deputy Pearse Doherty: Mr. Ahern, in an interview in the *Sunday Independent* in July 2007 you stated that your main message was that people should not allow themselves to be convinced by the merchants of doom and that the Irish economy was in trouble or that the good times were over. And we also know at the ICTU conference, unfortunately you talked about sitting on the sidelines ... people sitting on the sidelines cribbing and moaning and you unfortunately said, "I don't know how people who engage in that don't commit suicide." The reason I raise this, Mr. Ahern, is how do you reconcile that with your witness statement, with the fact that as the crisis was starting to emerge, it appears that you were quite willing to confront rather than engage with alternative views, yet your witness statement talks about listening and responding to proposals and criticisms?

Mr. Bertie Ahern: Well, you've asked me a number of questions in that. In my entire political life, I think I've ... from the time I was Lord Mayor of this city of Dublin and through being Minister for lots of things, but particularly Labour and Finance, I spent my time giving a positive message about this country. I travelled on trade missions. I spoke internationally. I did thousands of meetings talking up the benefits of our country, giving factual positions but also trying to explain all that we could do, particularly in the years ... in the bad years when ... in the late '80s and in the early ... when I was Minister for Finance when matters were very, very tight. So I was always giving a positive message, trying to give ... if the Minister ... I used to be chairman of the committee for employment back in the late '80s and early '90s and, as Finance Minister, if I was going out giving a negative message or a downbeat message, then what hope was there for the rest of us? I would always try to be positive. I would always try to keep a confident message and talk about the glass being half full. And, as you know, Deputy, in this

country, an awful lot of people, even when the glass is full, want it to be half empty. So I make no apologies for always trying to be positive and sometimes when it was difficult. And if you ... you see in the papers that you had sent to me, many of the areas where the Department of Finance were advising their own Minister to keep it positive, because there were domestic issues.

Deputy Pearse Doherty: The question was about-----

Mr. Bertie Ahern: In your last ... in-----

Deputy Pearse Doherty: Okay.

Mr. Bertie Ahern: In your last ... you asked me about ten questions. In your last question you ... about can I address ... I had two very good friends who died from suicide in the '90s. I never should have said that. And three minutes after I came off the stage, I apologised for that. That was just a totally wrong thing to say. But what I was talking about that day was confidence, that yes things were getting more difficult, and was before liquidity. But I was talking to the Irish Congress of Trade Unions in Donegal and I was saying "Listen, we have to have confidence, we have to have belief, we have to work together, we have to pull together." And I'm sure you've seen that speech. And, unscripted then I, unfortunately, said that and, of course, like lots of things in life, everyone forgets what I said in the rest of that speech. But I think that speech was a speech of trying to give confidence and stability and I don't think there was anything wrong that.

Deputy Pearse Doherty: Mr. Ahern, I only asked you one question and the question ... I gave you two quotes just to show a trend in this here and I asked you one question, I says your statement talks about being able to interact, to listen, to respond to views, proposals and criticism. Could it not be a fair person's viewpoint that this wasn't just you being positive but you were actually trying to close down criticism by calling them "merchants of doom" and so on?

Mr. Bertie Ahern: No, Deputy.

Deputy Pearse Doherty: No. Okay.

Mr. Bertie Ahern: Deputy, I spent hours on end in the Chamber that I was, and you are, honoured to be a Member of and, God, I took criticism.

Deputy Pearse Doherty: Okay. Mr. Ahern, in 2007 and 2008 there was a number of things happening. We know from 2007, the Government was investigating possible responses to the emerging credit crisis. At the same time, both commercial and residential properties had stalled. In March 2008, INBS was frozen out of the wholesale markets with no access to normal ECB funding. In March 2008, Seánie FitzPatrick was lobbying the Governor of the Central Bank for the form of ... some form of bank guarantee. In April, the Government was working on draft legislation for a systemic guarantee and we know by September what happened. Now, you were Taoiseach during all of this period. You've said to the Chairperson you believe, I think, that the fundamentals of the economy were sound when you left. Given what I'm just after saying, do you still believe that the economy was sound?

Mr. Bertie Ahern: Yes, I do. Because in all the discussions I had between August 2007 and up until I left, which was after the collapse of the share prices on St. Patrick's Day - St. Patrick's Day massacre as you like to refer to it - it was not ... it was about liquidity. I got very concerned from August 2007 and I had discussed it with the Central Bank, discussed it with the Department of Finance, discussed it with many, many people outside of it as well, and the

issue was about liquidity. At no time, and I can honestly say this to you, at no time did any of the agencies or any of the officials for that matter, say “Get ready for boom or bust.” That was not what was-----

Chairman: Finish your question, Deputy, and then I’m moving on.

Deputy Pearse Doherty: There’s a very influential journalist who writes for the *Financial Times* ... and you mentioned about St. Patrick’s Day. He was telling people not to ... to move away from the likes of Anglo at that time because of over-exposure to the property market. Were you completely unaware of the banks’ over-exposure to the property market, given the fact that you believed that it was only a liquidity problem?

Mr. Bertie Ahern: No, I said to the Chairman in reply to the very first question that he asked me, of course I was aware of the over-exposure. Anglo, I think, had ... 40% of its loan book was in property in Ireland and 40% of it in property in England and I think we had ... at 60%, we had probably the highest ... I think we had the highest ratio of lending in one sector. So they were all different points. What you asked me did I see that we ... that this was heading for bust and the answer to that “No.”

Deputy Pearse Doherty: I didn’t ask that question, Mr. Ahern, just to clarify-----

Chairman: Quickly now, Deputy.

Deputy Pearse Doherty: -----I asked you ... I asked you did you believe that the economy was sound, given the fact that guarantee legislation was being drafted before you left the Office of the Taoiseach, given that certain banks were shut out of the market and the over-exposure of major banks in this country to the property market?

Mr. Bertie Ahern: Well, the answer was ... is still the same. And the reason, Deputy ... I could give you many examples. I’ve given you a good few. But if you looked at the growth and stability programme that was just issued at Christmas to the European Union, that Christmas of 2007, from the Department of Finance which, as I said earlier, is ... always takes ... rightly takes a conservative view, that was showing that we were going to grow by 3% to 5%, so it wasn’t that I thought ... the IMF, the ESRI were all saying the same - that, yes, there was a problem but not that we were going to see a collapse. And the figure that we’re talking about in that Growth and Stability Pact figure was 50,000 to 60,000 houses and the Department of Finance said well, they thought under 50,000 was more likely. We were not talking about down to what happened a few months later.

Chairman: Thank you, Deputy. I’ll bring you in to wrap up again. Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you, Mr. Ahern, you’re very welcome. I want to go back to 1998 and entry into the euro, if I may? Did Charlie McCreevy notify you in advance of his decision to decide the exchange rate at which Ireland would join the EMU? Did you discuss this prior to his decision?

Mr. Bertie Ahern: Yes ... of Ireland joining the economic and monetary union?

Deputy Eoghan Murphy: The exchange rate, at what rate he’d fixed at?

Mr. Bertie Ahern: Oh yes.

Deputy Eoghan Murphy: Was it discussed at Cabinet?

Mr. Bertie Ahern: I can't recall if it was. I'm sure it was discussed between the Department of Finance and the Central Bank.

Deputy Eoghan Murphy: Was the Government aware of what fixing of the monetary exchange rate for EMU would mean for interest rates?

Mr. Bertie Ahern: That it would ... it was considered that fairly quickly on, we should get stability in interest rate and that it would be lower. I ... at that stage, our interest rates for many years, other than the currency crisis, was 10.75%. In the currency crisis, well, it went to 13.75% and, of course, the overnight went to whatever you like ... it went to all kind of rates - 80%, 90%, 100%. But the view was, as I recall it, that we should come down to around 7%. I don't believe that it was considered back in ... we're talking about '98, you're asking me now ... would it come down to where it did? I don't think ... I think 7% was what was considered.

Deputy Eoghan Murphy: Immediately after that decision was taken in Europe with the Minister, commentators at the time predicted that a wall of money would hit the Irish economy immediately following that decision. And then there was immediately a push for a fall in interest rates. So what did your Government do to protect the economy and people from this wall of money that was about to hit the Irish economy?

Mr. Bertie Ahern: The supply of cheap money?

Deputy Eoghan Murphy: Yes.

Mr. Bertie Ahern: Well, we had, at that stage, partnership agreements. I think we were endeavouring - and were - to keep wages in line and salaries in line with what we thought was a sustainable level. We were doing our utmost to generate employment. We had ... by 1998 we were on about 1.4 million people working in the economy. We believed there were opportunities to increase that. We were trying to attract new industries. At that stage, as you know ... was the area when we really focused in on trying to get in foreign direct investment from the pharmaceutical sector and from the medical and medical appliances sector. We made a huge push from '98 to 2003 to bring in as much foreign direct investment as we could to give quality jobs.

Deputy Eoghan Murphy: Sorry, I'm just not sure what the relationship is to my question in terms of the increase ... the cheaper money coming into the economy as a result of the lower interest rates. What did the Government do to counterbalance that? And I mean in relation to fiscal policy.

Mr. Bertie Ahern: In relation to fiscal policy, I think all the way through we were trying to keep the, you know, should ... to keep the budget in balance and to keep a surplus when we could and to write down the debt as much as we could. And we did that.

Deputy Eoghan Murphy: In 2001 - in February - the EU Council censured Ireland for its failure to use fiscal policy to ensure economic stability given that we were now in a monetary union. Do you accept that charge?

Mr. Bertie Ahern: Yes, I do. I think it was a bit hard on us, quite frankly. Not long later I was lobbied extensively by the Germans and the French not to hammer them and we didn't, but anyway.

Deputy Eoghan Murphy: In terms of the opinions, sorry, and what exactly you accept, it

said that it had repeatedly urged the Irish authorities to ensure economic stability by means of fiscal policy. It regretted that this advice was not reflected in the budget for 2001, despite developments in 2000 indicating an increasing extent of overheating. So what did you do about that?

Mr. Bertie Ahern: Well, in 2001 to 2003 we reined in public expenditure quite strongly, not because of that particular charge at European Union level but because the economy and the dotcom turned down quite severely and we had to do it. But we accepted the ... we accepted the charge. I know you've discussed this previously but we accepted that charge and I don't accept that we ignored it. I mean, we didn't ignore it.

Deputy Eoghan Murphy: You say that you reined in public spending but if we look at ... and it's a graph from the Wright report, it's in the documentation - page 81 of Vol. 3. What we actually see in the years for 2000, 2001, 2002 is public expenditure increasing far beyond what was being recommended by the Department of Finance. So did you actually rein in public spending? Because what I see in this report is it increasing.

Mr. Bertie Ahern: Well, the Department of Finance, if you look at their summer document, they come in at a low base and then you have ... Like you can't have a situation where the economy is growing very strong, where you have unemployment, and still very high unemployment at those times ... where we have many difficulties within our economy and you just look at the budgetary position. Like it seemed to most countries from ... well, we're not talking about ... which year do you want me to you started in '98 now you end up to 2001 ... which year do you want me to-----

Deputy Eoghan Murphy: I don't want to get into a long narrative on this, Mr. Ahern, I want to stick to the actual Council censure. But also, what was also said by the Wright report, and if I'm correct, he said that you were in broad agreement with the reports conclusions.

Mr. Bertie Ahern: Yes.

Deputy Eoghan Murphy: So on page 48 of the Wright report it says that, when talking about the monetary union, the impacts on the Irish economy and what should have been done with fiscal policy, it says, "Ireland failed the test of prudent fiscal management." Do you accept that?

Mr. Bertie Ahern: I accept it now in hindsight because we would have built up bigger balances. But can I say at the time, Deputy, we still had over 10% unemployment. We still had an inability to give jobs to the young people in this country. And it seemed to me ... and today if it weren't have been for what happened ... to be writing down debt, which we were, substantially, saving interest payments, growing the economy, creating jobs, bringing in foreign investment, spending on infrastructure, having a balanced budget and creating surpluses, you know, if that wasn't complying with what he wanted us to do, I don't know what was.

Deputy Eoghan Murphy: That's not what I wanted you to do, Mr. Ahern, but does that mean that you didn't ... that you ignored the censure from the Council?

Mr. Bertie Ahern: No, I-----

Deputy Eoghan Murphy: If you accept what Mr. Wright says, that we failed the test of prudent fiscal management, and Mr. Cowen accepted that as well when he was before us, does that mean you ignored the European Council?

Mr. Bertie Ahern: If you asked me to say now, if you asked me to say now ... should we have built up more balances if we knew there was going to be a bust in 2008? Yes. If you ask me from the position where I was Taoiseach ... chairing the Cabinet in 1998, 2000, where we had unemployment and a whole lot of infrastructure which we had to deal with, and a demand to try to bring up the country to EU averages, then the answer was no at that stage. Like if hindsight was foresight, you know, I'd be a billionaire and so would you. But at the time I thought what we were doing was conservative. And in fact I was considered a conservative at that stage.

Deputy Eoghan Murphy: Despite the censure from the Council and despite also-----

Mr. Bertie Ahern: The Council, can I say this, I spent a lot of my life in ECOFIN and the Council, Deputy. And you know, if you're a small country ... a few years later Germany were way over the line, way over the line. And I had the Chancellor come down to say to me, "Keep your mouth shut, Bertie.", "Come on," I said, "don't give me that."

Deputy Eoghan Murphy: Yes. And the Central Bank in 1999 stated "low interest rates have simply added fuel to the Irish economy they have pushed up demand for credit and they have been a contributing factor to the excessive rises in house prices". Did you ignore that warning from the Central Bank?

Mr. Bertie Ahern: Again?

Deputy Eoghan Murphy: Sorry ... "low interest rates have simply added fuel to the Irish economy they have pushed up demand for credit and they have been a contributing factor to the excessive rises in house prices". Central Bank in 1999. Prior to the censure from the Council.

Mr. Bertie Ahern: It ... the low interest rates gave cheap money ... and there were, it wasn't only that, in 1999 if we want to look back, Chairman, I think one of the things we did in 1999 was when we moved from giving mortgages from a gross to a net basis. When we changed it from 20-25 years to 30-35 and 40 years, I think that had a greater effect.

Deputy Eoghan Murphy: I want to stick to looking at what was being warned ... the warnings from the Central Bank in relation to the budgetary policy of your Government. If we look at the Central Bank pre-budget letter ... towards the end of 2000, this is for the budget for 2001. It warned that despite the strong surplus position the case against an expansionary budget is convincing, as this would heighten the risk of a hard landing for the economy. Did you ignore that advice when agreeing the budget for 2001?

Mr. Bertie Ahern: I don't think the Minister did, quite frankly ... I think-----

Deputy Eoghan Murphy: Even though the next two budgets were expansionary budgets, going against the advice of the Central Bank.

Mr. Bertie Ahern: 2001 to 2003 ... after the dotcom, or during the dotcom period, were not considered expansionary budgets. You know, taking into account the fact that we had a lot of money into the system and, you know, we had a growing economy.

Deputy Eoghan Murphy: I'll just cut across, Mr. Ahern, sorry ... just ... because the figures shows that in 2002 spending was 22% up on the previous year for the first six months. Is that not expansionary?

Mr. Bertie Ahern: The ... what was the current budget deficit in 2002?

Deputy Eoghan Murphy: Is that not expansionary, Mr. Ahern?

Mr. Bertie Ahern: No, but what's the current budget deficit? Like, with the greatest respect, if you're the Minister of Finance and the Department of Finance and you're devising your budget and I've been lucky enough to be at a Cabinet table, I think, for about 20 of them, you're looking at what your current budget deficit is, you're looking what your Exchequer borrowing requirement is, you're looking at what your debt-to-GDP ratio is, you're looking at what your income is and you're taking all these things into account. I'm not disagreeing with ... but I'm just saying, Deputy, you can't take one in isolation from the others. That's all I'm saying to you.

Deputy Eoghan Murphy: Fair enough. Well, let's talk about the Minister for Finance then because when he was before the committee, I asked him in what way the elections in 2002 impacted upon the budget decisions in 2002 and 2001. And his reply to me was:

I'm sure that when an election is coming up, that you will be very, very conscious in the previous year to 18 months, as the same as this Government is very, very conscious, of not trying to do something which is going to antagonise the electorate. And certainly all Governments of which I have been a member and all Governments when I wasn't a member, have always borne that very much in mind. So the answer to your question is-----

Chairman: Which Minister is this?

Deputy Eoghan Murphy: It is Mr. McCreevy.

-----yes, of course, the upcoming election has always influenced measures which the Government do at election time. We are politicians, don't forget, and we actually like to be re-elected.

Is that a true reflection of your Government?

Mr. Bertie Ahern: I don't think we ever did anything irresponsible on the base into a budget and, to be honest with you, I hadn't got much competition in 2002 so I wasn't that worried about whether I'd be re-elected Taoiseach or not, so ... it might have been a bit tougher in 2007, so I don't think we were involved in doing anything that I would consider near irresponsible in 2002 because I considered my job as Taoiseach, my constitutional role, is to serve the people and do things responsibly. And I think if you ask me do I have to accept or disagree with what Mr. McCreevy said there's a touch of, that you did something irresponsible, and I don't think we did.

Deputy Eoghan Murphy: Okay, well, immediately after that election in 2002 Minister McCreevy sent a memo to every Government Department demanding cutbacks in spending. Why?

Mr. Bertie Ahern: Because ... which he said to you, the economy started growing massively in that year and ended up very low. It was 12% in January and ended up 1% in December, so there was an enormous drop in one calendar year because of the dotcom. And that was the reason then he had to go back-----

Deputy Eoghan Murphy: In 2002?

Mr. Bertie Ahern: Yes.

Deputy Eoghan Murphy: The dotcom bubble was in 2001.

Mr. Bertie Ahern: Yes but the effect into the Irish economy was 2001, 2002 and 2003.

Deputy Eoghan Murphy: And the forecasts didn't predict this then for 2002, the economic forecasting?

Mr. Bertie Ahern: The economic forecasts ... I can't recall what the figure was but the economic forecasts in 2001, '02 and '03, was we were under quite a lot of pressure and quite a lot of criticism and it was a tough three-year period.

Deputy Eoghan Murphy: Okay. Moving forward then through to before 2007. In an interview with the *Sunday Independent* in November 2014, you said:

...competitiveness had certainly been lost for three or four years by 2007 ... Investment in residential property went to 13pc of our national output in 2006. That's about double what it should have been. The share of employment in construction was too high. But the OECD didn't pick it up at the time, and from reading their reports, which I used to do, I didn't pick it up.

The 2003 OECD report said that tax incentives that boost demand in an already overheated residential market should be cut. The 2006 report stated domestic risks were important too, of which the most prominent was the risk of overshooting housing prices, although a soft landing was considered the most likely scenario, a sharper fall could not be ruled out. Did you miss these warnings when you were reading the OECD reports?

Mr. Bertie Ahern: No, I don't think ... I ... but, you know, Deputy, you've been reading these things massively and I ... I admire you for all you have to do in that, but you ... you can see what they do. They give the upsides and they give the downsides and they give conclusions, they give some criticism, they give some praise. But I do accept what I said in that article is true. Competitiveness, of course, is a loose term that's thrown around. But competitiveness, when I was talking in that article and many other times that I have accepted, and this is what I do accept more so than I accept the expenditure argument, I accept that we got the competitiveness issue wrong. Competitiveness in its broadest sense, it covers a wide range of factors, it includes productivity, quality of output, innovation, sales, marketing expertise, quality of infrastructure, and I suppose, mainly salaries. That's what competitiveness is, and we did, I think from the period 2000 on ... miss out that we were losing market share and we were losing our competitiveness and, you know, if you were doing things differently, that issue, I would argue some of the other issues, but I think that issue I don't argue about, because I think that broad definition of competitiveness, we were letting, we were switching, we were switching from exports, which in most of my political career in Finance, I was always ... my paranoia was keep exports high, because that gave us more consumption, that gave us domestic demand. But then we lost on the export and we moved to domestic demand and that was the mistake that we made.

If you look at what Germany did in the same period, they went the other way, gained 10% competitiveness. We lost, and that was a mistake.

Deputy Eoghan Murphy: 2007 was another election year and I think, by your own admission, you were in a bit more trouble then. It's been written by Pat Leahy that Brian Cowen favoured a more prudent approach to budgetary matters than you did in the run-up to that election. He wanted to emphasise caution and restraint and avoid big tax-cutting promises. So did the election of 2007 have an impact on the budgetary decisions made in that year for 2008?

Mr. Bertie Ahern: I think perhaps in that year, 2007, public expenditure was too high, be-

cause there were a lot of warnings around in that period, and I think, if you're certainly doing it ... if you ask me now, going through it again, you would have taken a different view.

Deputy Eoghan Murphy: I'm asking about the time; in 2007, tax receipts fell €2 billion below expectations and yet for the budget for 2008, you increased current spending by 8% and capital spending by over 10%. Why?

Mr. Bertie Ahern: Well, current expenditure, I think, might have been too high. Capital, we were being advised by all the organisations that that was the right thing to do, that we still had infrastructural deficits, so I think on the current side, we should have tightened up, on the capital side, 10% was high, because overall, we were working to a 5% on infrastructure, 5% of GNP. On the current side, it was time to be getting tighter at that stage.

Deputy Eoghan Murphy: Did you get the 2008 budget wrong, then?

Mr. Bertie Ahern: 2008, I think Minister Cowen has given his view and I agree with his view.

Deputy Eoghan Murphy: Do you feel that you ignored the views of the Oireachtas or the concerns of the Oireachtas in devising that budget?

Mr. Bertie Ahern: Well, which end of the Oireachtas? Every day I was in the Oireachtas-----

Deputy Eoghan Murphy: The Opposition, in the Dáil.

Mr. Bertie Ahern: The Opposition collectively, every day I went in, I still hear it in my ears, you know, spend more on this, that and the other. I don't remember hearing anything else than that.

Deputy Eoghan Murphy: It's in your evidence book, Vol. 5, page 59, it's a series of questions, parliamentary questions, put to the Minister for Finance at the beginning of 2007 and through for the first six months, asking questions about the tax policies and opinion on growth and revenue, confidence in the mechanisms used to make Exchequer return predictions, the heavy reliance of the Exchequer on revenue from the housing sector, the over-dependence of the economy on the construction sector, dependence on insecure sources of tax revenue from property, the views of the IMF that Ireland was one of the most vulnerable countries to the ongoing international banking crisis and credit crunch and you go ahead and you increase spending for 2008. So, were you aware of those concerns being raised by Opposition TDs in the Dáil and did you pay attention to them?

Mr. Bertie Ahern: I've read the questions, a lot of them were written questions, but I'd have to say, Deputy, first question, do I think 2008 was too high in public spending, the answer is yes. Did I listen to the Opposition in the House, I would have spent three times more if I'd listened to them.

Deputy Eoghan Murphy: Okay. Do you accept the findings 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. Bertie Ahern: Yes, I read that. I'm not sure; I'm not sure.

Deputy Eoghan Murphy: You're not sure.

Mr. Bertie Ahern: No.

Deputy Eoghan Murphy: Okay.

Mr. Bertie Ahern: I'm not sure.

Chairman: Could you elaborate on that level of uncertainty?

Mr. Bertie Ahern: Yes, I don't ... there were two major things happened, Chairman. The amount of taxation that was directly related to the residential ... to property was too high ... too high and, you know, I accept responsibility for that. I was head of Government ... 24%, almost 25% in the economy, you know ... you know, that was ghastly when you look back at it ... you see it. On the other side, you look at what the banks did ... you know, the Nyberg report, all that happened on the banking side. But the bit I'm not too sure of ... the international crisis that came on top of it ... talk about all the cards being played against you in one go, Chairman. I think sometimes we forget ... internationally ... just the extent of what was happening worldwide in those few months. Rightly so, we looked at what was happening in Ireland and how it was effecting us and the banks ... and ... but look at what was happening worldwide, the extent of the investment bank system ... the banking system put the world under ... to get that on top of our problems ... I'm not defending our problems. I've said the two vulnerabilities that were there - one I take for responsibility for, I take no responsibility - none - for what was happening in the Central Bank or in the Financial Regulator because I had no knowledge or control over it, despite what people think and accuse me of. But the international hit ... the international hit was just massive and I think that ... to, kind of, say that had nothing to do with it does ... I'm not ... if I was here with him, I had have an argument with him but he's not. But I just think that is too harsh a statement and I would like be able to argue that point with him.

Chairman: We just allowed a bit of time for that. Back to yourself, Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Chair. Just to move on then, if I may, Mr. Ahern, to 2007 and you established the domestic standing group. Did you pay any attention to its work?

Mr. Bertie Ahern: The domestic standing group?

Deputy Eoghan Murphy: Yes.

Mr. Bertie Ahern: No, not a lot. I knew it was there. I've said what I said in my statement about it. I was aware that they were meeting but we did not receive the reports in the Department of the Taoiseach from it. We weren't ... we didn't participate in it. None of my officials were on it and we weren't ... we were not being briefed and I cannot ever recall being briefed at the Cabinet on it either.

Deputy Eoghan Murphy: So were you were aware of the increasing liquidity problem facing the banks from 2007 on?

Mr. Bertie Ahern: Yes.

Deputy Eoghan Murphy: You were aware of that problem?

Mr. Bertie Ahern: Yes.

Deputy Eoghan Murphy: And did you do anything about it?

Mr. Bertie Ahern: I discussed it. And when I came back from holidays that year, I dis-

cussed it with the Governor and we had numerous discussions on the liquidity issue ... ongoing discussions all the way from August 2007 right until the time I left. The liquidity issue was ... I would have numerous, numerous discussions with the Minister for Finance.

Deputy Eoghan Murphy: Were you aware, then, that the Governor of the Central Bank and the Financial Regulator went to each of the banks in March-April 2008, in what was called “the green jersey” agenda - because one Irish bank couldn’t borrow from anyone and another Irish bank couldn’t get any money from the other Irish banks - to ask the banks to lend to each other? Were you aware of that initiative?

Mr. Bertie Ahern: I wasn’t.

Deputy Eoghan Murphy: You weren’t aware of that?

Mr. Bertie Ahern: No.

Deputy Eoghan Murphy: Okay. Thank you. And then just moving then past your time as Taoiseach. You gave an interview in the *Sunday Independent* in November 2014 talking about what skills were needed in 2008 and 2010 and you said “I knew my way around all of these things”, and you were referring to the NTMA, the Department of Finance, the ECB, Jean-Claude Trichet, who you knew personally, “I knew my way around all these things while Brian Cowen was only in the door. So that’s the pity about that period.” Are you saying that if you were still Taoiseach in 2008 and in 2010, there would be a different outcome for the country?

Mr. Bertie Ahern: No, I’m certainly not. I don’t think the outcome, unfortunately, would have been maybe no better and Brian Cowen did a very good job and Brian Lenihan, in my view. The point I was making ... but, you know, I knew these people very well and I knew the Europeans very well. I knew them personally. I think it would have been easier on my colleagues I knew ... Jean-Claude Trichet from the 1991-1992 currency crisis, when he was head of ... monetary section of the French department of finance. Jean-Claude Juncker was head of the Eurogroup. I had been Minister for Labour with him, Minister for Finance with him and Taoiseach and Prime Minister with him. So I would have been, you know, personally very, very friendly with these people.

Deputy Eoghan Murphy: What difference would that have made?

Mr. Bertie Ahern: Well, it ... I think it would have been able to put a bit of leaning on them. When they-----

Deputy Eoghan Murphy: That Mr. Cowen couldn’t.

Mr. Bertie Ahern: Well, they didn’t help them. As you have heard time and time again here, they didn’t help them very much. So maybe the outcome would have been no, absolutely no different-----

Deputy Eoghan Murphy: Why make that point-----

Mr. Bertie Ahern: -----but I have to say I felt it hard during that period because I was only gone a few months and you ... I would have felt I would have able to be of help. You have asked the direct question, “Would it have made any difference?”, and I have said to you, no.

Deputy Eoghan Murphy: Okay, so why did you say when you left the Dáil that, “I would have loved if somebody somewhere had of told me what was going on in the banks in this coun-

try, but nobody ever did”, and you just told me that you did know about the increasing liquidity problems facing the banks and you had spoken to the Central Bank Governor about it?

Mr. Bertie Ahern: I was talking about the point which I dealt with earlier to Deputy Doherty that the extent that so few people owed so much and with very poor guarantees and very poor stress tests or checks on their ability to be able to deal with those loans. That’s the point I was dealing with.

Deputy Eoghan Murphy: And just-----

Mr. Bertie Ahern: I never was given that detail.

Deputy Eoghan Murphy: Okay and you were never given that detail. And then, just about mistakes that you think were made by your successors in government in the Department in Finance ... if you thought any mistakes were made? Because again, from that same interview in the *Sunday Independent* in November 2014, when you were asked about the pressure that Jean-Claude Trichet was putting on Brian Lenihan, you said:

The reality in life is when you’re around a long time, maybe the mistakes you make the first time, when you do them about the sixth time [you don’t do it again]. When you’re doing it the first time, it’s not so easy. But that’s what’s called, in inverted commas, experience.

Did you feel that Brian Lenihan did not have enough experience to be the Minister for Finance and if mistakes were made, what mistakes were they?

Mr. Bertie Ahern: No, I don’t think Brian Lenihan or Brian Cowen made any mistakes. I think they did their very best in the circumstances that were there. But it wasn’t easy for them. You know both ... they ... I remember during the currency crisis the then Governor of the Central Bank saying to me that, “I was unlucky in one way and I was lucky in another”, and I asked him what did he mean and it was Maurice Doyle, a very good Governor of the Central Bank. And he said “You are unlucky to be here when there is a currency crisis to the extent and the level that it is. But you are lucky to be here to gain the experience in this particular time” and, you know, it was that time that we had the group which afterwards, was like the domestic banking group. During that whole currency ... the Governor of the Central Bank, the Secretary of the Department of the Taoiseach, Sean Cromien, Michael Somers, who was head of NTMA, Maurice O’Connell who was, who was later Governor of the Central Bank, we met three, four times a week working and getting through that crisis. So, you do ... you do, I think, Deputy, appreciate ... you gain a lot of experience from that for me to say would it have made any difference.

Chairman: I’ll just venture in quickly and if I can-----

Deputy Eoghan Murphy: Thank you, Chair, it’s my last question. I think you said earlier that you take no responsibility for what the Central Bank, what was happening in the Financial Regulator, is that correct?

Mr. Bertie Ahern: Well, what I said ... the ability as ... just to be clear about this, it is regular with people that say to me, you know, they say, “Bertie, listen, you must have known the extent of A, B or C of what they owed the bank, that they hadn’t got guarantees. You must have seen the files.” I know you people here are experts on this issue now. But the general public believe that the Taoiseach of the day and even very sophisticated people in there, believe that you had this information, that I knew what X, Y owed and what guarantees he had and that I was over coffee talking to the Governor of the Central Bank. I didn’t know anything about any

of that-----

Deputy Eoghan Murphy: Okay----

Mr. Bertie Ahern: -----if I did of ... if I did of, I would have lashed it out in the Dáil some day or some speech-----

Deputy Eoghan Murphy: Okay-----

Mr. Bertie Ahern: -----when I was down in Treasury or somewhere. But the point is, when you are Taoiseach, you don't have any of that knowledge.

Deputy Eoghan Murphy: What my question's for-----

Mr. Bertie Ahern: So I take stick for lots of things-----

Deputy Eoghan Murphy: Okay, right-----

Mr. Bertie Ahern: -----but not stick for something I had zero control over-----

Deputy Eoghan Murphy: Well, well-----

Mr. Bertie Ahern: -----central banks all over the democratic world and even in the not-so-democratic world are totally independent, are totally removed from politics for the reason that they don't want politics in it. So you can't have it both ways.

Chairman: I just want to come in on that point for a second before I bring in Deputy McGrath. But if you can just conclude, please-----

Deputy Eoghan Murphy: Yes, well this is a point about----

Chairman: -----sorry-----

Deputy Eoghan Murphy: -----the general responsibility because in October 2009, in an interview with the *Financial Times*, you were reported as-----

Chairman: Is this a new line of questioning now or I'm going to order-----

Deputy Eoghan Murphy: It's the exact same line, sorry, Chair.

Chairman: Okay, all right.

Deputy Eoghan Murphy: It was reported as stating that, "the decision ... to create a new financial regulator was one of the main reasons for the collapse of the Irish banking sector". That new Financial Regulator was set up while you were Taoiseach on the advice of Mr. McCarthy; it was the McCarthy compromise, the type of regulator. So do you take responsibility for that?

Mr. Bertie Ahern: To the McCarthy compromise?

Deputy Eoghan Murphy: For the setting up of the new Financial Regulator, which is one of the main reasons for the collapse of the Irish banking sector? What do you say to that?

Mr. Bertie Ahern: Oh, I was Taoiseach, and I was actually chair of the negotiations on that. Just for the record, Chairman, I didn't do any interview with the *Financial Times* since I left the

office of Taoiseach.

Chairman: All right, thank you.

Deputy Eoghan Murphy: Okay.

Chairman: Just before we bring in Deputy McGrath. Mr. Ahern, you were a renowned constituency worker, and you had a huge reputation in that area and as somebody who had a very, very strong relationship with their constituency. In that regard, I'd imagine that you would have had a very busy advice centre or centres during the course of your term, even as Taoiseach, not ... besides when you were a backbencher. Did you have people coming into your constituency clinics who were saying that it was getting harder and harder to buy a home, that the affordability of buying a home was becoming beyond their reach? We have evidence that's been before the inquiry that shows that the average house went, in a ten-year period, up ten times, and that the difficulties of getting a mortgage were going out from 20 years to 35 years, 40 years, which meant that when their child was going to university, which should be at the latter end of a 20-year mortgage, was now half, only midway through a mortgage, and these type of difficulties. Did your constituents bring these concerns to you? And, if they did, can you tell us how you reflected that in government then?

Mr. Bertie Ahern: Non-stop, Chairman, and everywhere I went from, I think, the day I went into the office. That was the reason we spent an enormous amount of time ... maybe we did too good of a job on the supply side, but ... to trying to build up supply. It was our view, maybe mistaken, but ... that if we got the supply side right that that would solve that problem, and that we would get equilibrium and we would get the prices. to drop down. But what did we do? I mean, all the initiatives, the serviced land initiative, all the affordability issues we put ... I personally put a huge amount of time with the members, social partners, and trying to talk to some of the construction sectors about trying to help the affordability issue, giving State land, doing the SZC, the zoning areas in the land, trying to narrow down what were the designated taxes. I should have said earlier, sorry, I think, when I was answering a question to Deputy Doherty, but we were attempting to narrow down the designation to try and get more affordability into the issue. I had changed the section 23s. I saw them one of the days when I was watching the hearing. Section 23s; I limited that back to designated areas. Before that a builder could get a section 23 loan anywhere. We changed that. I think I changed it back when I was in Finance. And then we changed it again to bring in the integrated areas, so all the time we were trying to ... and we were trying to help on affordability.

Chairman: And all those measures, Mr. Ahern, despite them, between quarter 1, 2001 - it's coming up on the screen here - and right into early 2007, year-on-year, the average house in this country went up by the average industrial wage, practically on average. So did your strategies work?

Mr. Bertie Ahern: I think the strategy was always chasing. We never believed ... I'd the horrors, Chairman, when I used to see the figure going up, because it was meant to be 50, 55. We got to 50, 55, yes.

Chairman: It's in front of you there.

Mr. Bertie Ahern: Yes. But there were a ... there were a lot of reasons for this, Chairman, that, you know, in '99, if you see the ... where the curve starts going up in 1999, that's the year we made the change as well from gross to net, which meant that a person on the average

industrial wage could get up to about £400,000 ... or euro, we were euro then, €400,000 for a mortgage. So that one decision drove the ability of that gross to net, and the age structure when the building society extending the loans. So, we were ... and these weren't issues that I agreed with, but they were putting pressure on us. And back in 2005, Chairman, when the loan to value went to 100% ... I mean, the loan to value, if I can just say this, Chairman, because I think it's an important point, and I didn't hear it here but may ... I've watched as much as I could, the loan to value, when it went to 100%, the only reason a bank gave a loan to value for 100% is because they wanted the price to go up. Because, banks don't give money to ... for no profit, and by it's very self, if you give 100% loan, and if it doesn't go up, you're making no profit. So, by their very practice they were pushing it up. And yet at time when we were cooling it - and we did say this, and it was said to the banks and it was said by the Department of the Environment - they were pushing this up and then it takes off again. So there were a number, along with supply and demand, there were a number of policy decisions that were made that drove that and made it more difficult. And the policy would have only worked if we had have started getting ... decreasing which didn't happen until 2007.

Chairman: Thank you. Deputy McGrath.

Deputy Michael McGrath: Thank you very much, Chair. Good afternoon, Mr. Ahern. You have apologised for mistakes that you made during your tenure as Taoiseach and so far in your evidence what I have picked up is an acknowledgement of a mistake in terms of public spending, that it was too much, the loss of competitiveness, and I think an acknowledgement of the over-dependence on construction and property. Are there any other areas where you believe mistakes were made, or do you believe that those are the key ones? Is that what you're apologising for?

Mr. Bertie Ahern: Well, I think certainly the competitiveness issue because it affected a number of issues in the end of the day. The expenditure late on. I defended it on the percentage but I think when you go late on, definitely that wasn't a wise issue and it was wrong. And I suppose as I said I can't ... I can't apologise for issues I hadn't got control over. But I do apologise to myself that I didn't know about them because at least you might have been able to do something about them and in the Office of the Taoiseach you would have been able to do about that. I mean I don't think it's good enough for the future that the data that's available to us now, about the size of loans, looking backwards, I don't think that's data that shouldn't be there on a current basis in future, because then you don't have to put names on it, but at least you would have been able to deal with the situation.

Deputy Michael McGrath: And what about the dependence on transaction taxes which grew considerably during the 2000s? And the extent then to which permanent spending commitments on social welfare, public sector pay, were built up on the back of taxation income which ultimately ended up to be temporary and transitory in nature and which collapsed?

Mr. Bertie Ahern: On the bases of all the property taxes-----

Deputy Michael McGrath: Yes.

Mr. Bertie Ahern: Yes, I mean, it was 25% in the end. I think at 2006 it was at 25%-----

Deputy Michael McGrath: Yes it went up to almost 30%.

Mr. Bertie Ahern: -----which was enormous. Of course, my defence on that, of course it was too high, can't ... can't defend that, but remember, Deputy, where we thought we were go-

ing was back to 55,000, 60,000. And I had regularly looked at what the adjustment would be if you were going from 80, 75, I mean, I think that's in some of the papers that it's 0.5% in the short term, 1% in the longer term. And that would have pushed up employment, but it seemed to be reasonable that, yes there would have been some unemployment in the construction industry, we wouldn't have had 230,000 people, we wouldn't have had 13.3%, we wouldn't have had investment to 16%, but it did seem sustainable, if we were on 55%, to be able to still have, cyclically, a balanced budget, or near to balance, and still not put up the debt-GDP ratio.

Deputy Michael McGrath: Okay.

Mr. Bertie Ahern: So I honestly believed that that's where we were heading. For a second, I didn't believe that we were going down to 1975 rates.

Deputy Michael McGrath: But, Mr. Ahern, when you look back now and you add up the impact of those mistakes on public spending, competitiveness, over-dependence on construction, over-dependence on transaction taxes, did that ultimately amount to an unsustainable economic model?

Mr. Bertie Ahern: Well it's ... when you put them all separately, but actually, they're ... three of them are the same. We're talking about the ... because the houses were ... when the houses are being sold, people pay tax on them and people are employed to build them so they are all the one issue. So the question is, was trying to have 14% or 15% of your economy in one basket ... was that sustainable? No, it wasn't. Was it wise? No, it wasn't. Was it dangerous to do that? Yes, it was.

Deputy Michael McGrath: So it ... do you acknowledge, looking back, it ended up being an unsustainable model?

Mr. Bertie Ahern: Yes. Yes, I do.

Deputy Michael McGrath: Okay, and is that what you are apologising for?

Mr. Bertie Ahern: I'm apologising mainly to all the people who suffered because of the end result.

Deputy Michael McGrath: On the issue of financial regulation and the Central Bank ... you aren't accepting any responsibility in that area but can I ask you, was it open to the Government to insist on a more intrusive approach to financial regulation? As you know, there was a principles-led approach or "light touch" as it has become commonly known. Did any of that have its origins in Government policy, in legislation? Could the Government have dictated that ... "We want a more intrusive approach"?

Mr. Bertie Ahern: No, I do not think we could because worldwide, as I said, in democracies and in even areas where I wouldn't consider them very democratic - single-party states - they have learned the lesson to have credibility in your banking system, it must be totally, *de facto*, clear of government interference. And they are allowed - both from a banking stability point of view and from a prudential point of view - to be able to deal with their own affairs exclusively. And I think that's the situation we have. And I know from my long experience - maybe it'll change in the future and maybe it should - but if you ask me ... my long experience dealing with governors of central banks, and I've dealt with a lot, you don't ... they will not allow you ... even if you ask a vague question or a broad question, they will not allow you inside their remit. I'm not saying I ever tried but that is something that is guarded by them and

guarded, in particular, in the European Central Bank. When the European Central Bank were formed, they very early put down their foot and boot that they were independent and that they were going to hold this strong position into the future. So I don't think that the political system could have done anything about that.

Deputy Michael McGrath: Okay. Mr. Ahern, you've acknowledged that the property industry turned, as such, in 2006 and that you were very concerned by August 2007 about the overall economic situation. Now, as we know, a lot of ... a lot of your time was presumably taken up with the Mahon tribunal. Between September and December 2007 you made a number of appearances and the issue first broke in September 2006, when *The Irish Times* published an article that the tribunal was examining some issues relating to your own personal finances. But, given that you were entering into a crisis period in government, to what extent, if any, did the backdrop of the Mahon tribunal and the amount of time that you must have had to devote to it and the worry it must have presented for you personally ... did that impact in any way on your performance as Taoiseach, on the attention which you were able to give to the issues which were emerging?

Mr. Bertie Ahern: No, no, and it would be the contrary. I, kind of, ignored the tribunal to my own detriment later because I didn't realise what the game was down there but it did not affect my job as Taoiseach.

Deputy Michael McGrath: But in your statement on 2 April 2008 - you cited it -my reading of it is essentially the main reason why you were resigning:

It is a matter of real concern to me [you said] that the important work of government and party is now being overshadowed by issues relating to me at the Tribunal of Inquiry into Certain Planning Matters and Payments.

The constant barrage of commentary on tribunal-related matters has and I believe will continue to dominate the political agenda at an important point for our country.

So it came to that point at the end where you felt you had to go because of the extent to which the Mahon tribunal was dominating political discourse. But, in the months leading up to that, was it not also a dominant part of your life, that you were having to deal with this issue?

Mr. Bertie Ahern: No. Well, the point is ... I'll just clarify it. It didn't affect my job because I didn't give much time to it, to be honest with you, other than maybe Sunday nights or answering the endless letters I used to get from them. But it was ... it became a daily issue, not just for me, but for my Cabinet colleagues and it was, you know ... and as I say in that statement, I think you've read a piece, where I say that it is a serious time. There are serious economic problems and serious economic difficulties and the attention has to be on them, on those issues, not on me. And it was the case ... I mean, I know it's natural and I don't say this as a criticism because I'll get more criticism if it's meant as that but, like, if I went out to say that there was a severe ... a serious issue on liquidity and that we need to be careful where we're going economically, the first question I was asked was not about the liquidity. And then it became an issue that every one of my colleagues, if they went out and said it, that was the question, and that was the reason. I had no intention other than ... those last few months. I would have stayed on, not like some former leaders, as I said, until they were 80, but I certainly would have stayed on for another 18 months.

Deputy Michael McGrath: Finally, Mr. Ahern, why do you believe the scale of the bank-

ing crisis in Ireland, the collapse in property prices, the contraction of our economy, the extent of the budget deficit, why was that probably the most severe of all the developed economies as a result of the crisis that hit in 2008?

Mr. Bertie Ahern: Well, we were small. We had grown massively. The effects of the change in the availability of cheap money. The fact we were growing in employment so fast. We grew from, I mean, 1.4 million, I think, when I came into office ... like, if you go back when I was chairman of the Cabinet committee 20 years ago, there was 950,000 people working. In a very fast period, we went from 950,000 to 2.1 million. We were growing ... in the 20-year period from '87 to 2007, we grew by about 7% a year. You know, the scale of the budget and the economic catch-up, and then surpassing the catch-up, was just enormous. So I think the jumps we made, and we made many of them successfully, but when you take the collective magnitude of them, it caught us in the end. And so many of them came in that 2008 period. There was no breaks, and that's why I'd a lot of sympathy for my colleagues when I was gone, because never could I see a situation where so many things, where the investment banks of the world, the banks were falling all over the place - big banks, big institutions that were there for generations - and all of that coming against what we had achieved, it was just too big and that's ... so it wasn't any one thing. It wasn't that there was, you know, there was tax designations and there was tax breaks or that we were just ... you know, we were building too much. It was ... just wasn't one thing; it was the collective enormity of probably seven or eight of those things coming together and ... as they did, all in 2008.

Deputy Michael McGrath: Thank you.

Chairman: Thank you, Deputy. I now propose that we take a 15-minute break and return at 5.35 p.m. In doing so, I just wish to remind Mr. Ahern ... the witness is reminded that once he begins giving evidence, he should not confer with any person other than his legal team in relation to his evidence or matters that are being discussed before this committee. With that in mind, I'll now suspend the meeting until 5.35 p.m. and remind the witness that he's still under oath until we resume. Is that agreed? Agreed. Thank you.

Sitting suspended at 5.19 p.m. and resumed at 5.39 p.m.

Chairman: I propose that we go back into public session. Is that agreed? Agreed. And we continue our engagement this afternoon with Mr. Bertie Ahern. And if I can invite Deputy John Paul Phelan, please, to resume proceedings. Deputy Phelan.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, Mr. Ahern. Firstly, can I ask you: in the late 1990s capital gains tax and profits from land sales was reduced to 20% to boost supply in the residential rental market. When it became apparent that land prices had soared due to speculative demand for housing in the years between 2003 and 2008, was there consideration given to increasing capital gains tax?

Mr. Bertie Ahern: No, Deputy, I don't think there was. It was considered at the time that it was a beneficial thing to do because the rules were streamlined as well. As you know, there was a huge amount of legislation and regulation governing capital gains but from the time it came down until the crisis, I don't think there was consideration given.

Deputy John Paul Phelan: Can you outline maybe your own personal views on it at the time and also, maybe with the benefit of hindsight, do you think that if action had to have been taken or a change had to have taken place in the capital gains tax rate, particularly on ... on de-

velopment land in that period, that it would have had an impact on prices?

Mr. Bertie Ahern: I suppose it was part of those ... those whole series of issues where we were trying to get supply up in, in the time of the three Bacon reports. And as well, as you know, it was a very cumbersome system, there were all kind of ... it was a great business for accountants at the time, ducking and diving around the legislation and the laws around the capital gains, so Minister McCreevy, who was very familiar with it, thought this was a ... a straightforward way of doing it. You'd reduce the taxes but also simplify the whole regulation ... regulations around it. And then, I'm not sure about the ... if capital gains obviously would have brought in more revenue. To be frank, I think that, I wonder would it have been better for us if, when I amended ... I mean there was a property tax issue there from the '80s and I changed it again in '92-'93, and then it was decided not to pursue it and then we didn't ... when I came in I didn't pursue it either. I think it would have been better if we had kept a property tax there. That would have been more effective to be honest with you.

Deputy John Paul Phelan: Do you have particular view on increasing capital gains?

Mr. Bertie Ahern: No.

Deputy John Paul Phelan: Despite the fact that you were a self-proclaimed socialist at that particular time? It would have been to display your socialist credentials maybe in an area where you could have been-----

Mr. Bertie Ahern: I probably shouldn't have agreed to cut it then, but it did seem like a good way ... I'd ... I'd have to say my self-proclaimed socialist principles haven't changed either but I think we should have kept a property tax. It would have ... that from '93 ... because, of course, the Department of Finance idea was to bring it in at a certain rate and then to change it and I did that in '93. It would have made more sense to keep that there because it would have been a good revenue buffer and it might have simplified things too.

Deputy John Paul Phelan: Can I ask you, in relation to one of the first questions from Deputy Doherty, you said you didn't really become aware of the bubble in the property sector until 2009. And then in answer to the Chairman, you said that in your advice clinics for years people had been raising the issue of unaffordability of housing. Those two statements could be said to be contradictory, can you explain to the inquiry?

Mr. Bertie Ahern: No, in reply to the Chairman, the affordability issue ... whether ... whether we were building, when we were building 42,000 houses in '97, affordability was an issue. When we were building 88,000 houses in 2008, affordability was a bigger issue. I think the affordability, it just ... it kept on creeping up. I mean we had the initiative in the social partnership of 15,000 affordable houses but in the '98 - '99 period, that's when it really crystalised, and the Chairman is correct in this, where you had ... it's always the example when the teacher was marrying the nurse, you know, or maybe the nurse marrying the teacher but - politically correct - but it, it was that they couldn't afford a house, even taking their salaries in. The response to the lenders that time was to change it from gross to net. Now that substantially increased the amount of the mortgage that they could get. I'm not sure that was a good idea, but anyway it, it helped at the time. And then they increased, immediately afterwards, the 25. Twenty-25, 20 was the regular at that time, there was very few on 25, they switched that up. But I think that ... that was the affordability issue, which I distinguish totally from the other issue.

Deputy John Paul Phelan: Can I ask you then in relation to ... and going back to Galway,

not to developers, but to lobbying by financial institutions. Did you watch the evidence of Mr. McCreevy to the inquiry?

Mr. Bertie Ahern: I did.

Deputy John Paul Phelan: He ... there was evidence that day about lobbying that he received from the EBS in race week, in Galway ... I don't know where it took place, inside or outside of a tent ... but, on 2 August 2000 ... by a Mr. Michael Walsh, who was a senior person in lending, I think, in EBS, in relation to the introduction of the SSIA scheme. And it was followed up by a detailed letter from the chief executive of EBS at the time, Pat O'Reilly, on 29 August, in which he referenced the meeting that had taken place between Minister McCreevy at the time and Mr. Walsh. What was your own view with regard to the introduction of the scheme? Were you involved in its drafting? And were you aware that, at least from the documents we've seen, the genesis of it seems to have been in race week in Galway in 2000?

Mr. Bertie Ahern: Well, I'm not too sure where the genesis was, but I think for some time there were a lot of people saying that, "Listen, there's more money in the system", and one of the ways of dealing with the inflationary pressures that were around - we don't talk too much nowadays about inflation, but it was a big issue then, when we were heading for 5%-6% - was to bring in a savings system, for a number of reasons. One, it would take money out of the system, take heat out of the system, and, you know, disposable incomes were far higher. And, as well as that, it was a good thing for a new generation of people

Deputy John Paul Phelan: So did you favour it yourself?

Mr. Bertie Ahern: The savings scheme? Oh, I liked to have savings schemes. Now, I think Deputy McCreevy said he thought it all up himself, and nobody else thought about it. Well, you know, maybe so. I'm not claiming that I thought it up, but there were a lot of people talking about it at the time, so if he wants sole rights of inventing it, I'll give them to him, but I think there were a lot of people talking about a savings scheme, and that this was a way of taking inflationary pressures out. And I did agree with it. Okay, you'll say, the only downside, I suppose, which we didn't know at the time, was that the very time when people were maturing their saving and were going out into the system, that, maybe was when you didn't need the heat that was there. But, you know, I don't think that was seen at the time.

Deputy John Paul Phelan: Can I ask, and I want to turn to Vol. 4 of the booklets, page 69. It's a letter from a developer, Michael O'Flynn, to yourself, directly addressed to yourself, on 27 April 2004. It's in relation to the infamous Part V of the Planning and Development Act and, indeed, there's also ... expresses concerns with regard to an all-party Oireachtas committee that was being established at the time. Was it common practice, when you were Taoiseach, that developers would be writing to you about, you know, legislation or, indeed, specifically about an Oireachtas committee, as in this case?

Mr. Bertie Ahern: No, quite frankly. The letters were discovered in the Department of the Taoiseach. I was surprised there were so few. But from time to time they would. I think he wrote to me because I'd been launching the ... his scheme in Ballincollig, and, obviously, when I was doing the launch, when I was out and about, as I would do a number of events in any constituency, he spoke to me. And then, I think, no more than that but----

Deputy John Paul Phelan: There's a few of them, I'm not going to refer to them all ... but over the page on page 71, following on from the letter from Mr. O'Flynn, there's a briefing note

prepared for you, and it's says:

Meeting With Delegation of Builders to Discuss Housing Issues

Thursday 8 July, 2004 at 2 pm, Taoiseach's Meeting Room

The delegation comprises:

Michael O'Flynn, O'Flynn Construction

Sean Mulryan, Ballymore Properties

Bernard McNamara, Michael McNamara and Co.

Ken MacDonald, Hooke and MacDonald

Were ... did many of these meetings take place in your time as Taoiseach? This seems to ... and there's a reference, I think, in the previous letter to "reassembling" a group of developers to meet you; in other words, that there had been previous meetings. Do you think it appropriate that such meetings happened in Government Buildings? And can you outline maybe a bit of what was discussed?

Mr. Bertie Ahern: That particular one was about affordable housing, and for first-time buyers. I think you can ... you see it there, with the policies that brought the success we have to make sure that we respond to the problems such as affordability for some buyers. I had been making a number of speeches. And in the Dáil, more than anything, the issue of affordability was a major issue. And that group of developers came with a number of ideas about how it could help and they had ideas about getting land or ... you know, in areas in the greater Dublin area where the biggest problem was ... where there were big ... the old corporation schemes, council schemes, where there was land and that if ... a lot of these areas were causing social problems. That if the land ... if the local authority would give it to the developers, they could build houses which the local authority then could give to people on the local authority list who wanted to buy houses. So it wasn't a bad idea or if the State would give land where they ... so you'd take ... and part of the reason for that, as you know, Chairman, in the late 90s the cost of land was about 13% of a price of a house and it went up to about close enough to 25% of the price of a house. So it was a big factor on affordability. In fact, many of the economists at the time were saying that we should be looking at the land issue as much as any other issue. But that's what that meeting was about ... it was particularly they advocating that they had a social conscience and they would play ball to try to help to deal with the either social-affordable housing. Very little happened out of it because the concepts of taking over the land and taking over land beside-----

Deputy John Paul Phelan: Can you see now, I suppose with the benefit of hindsight, and you've mentioned hindsight yourself earlier on, that how such a meeting between such a significant group of developers would portray a relationship ... could portray, I should say, I can't lead you, that might have existed between Government and those people at the time?

Mr. Bertie Ahern: Of course, I can understand how it could. But, you know, the fact it was with officials I tended as best I could but I can't say I always did ... you know, to make sure I would have an official and it would be properly done. But I have to say, most of the time when it came to their own issues ... their own agenda, they didn't need to come in ... they had a very strong lobby with the CIF who were very well resourced and were very vocal and, you know,

were after all Departments including me. I tended to meet them regularly in the sectoral meetings around social partnership but-----

Deputy John Paul Phelan: How often would you have met the CIF? Just to ... I'm sorry now, Chairman.

Mr. Bertie Ahern: Well-----

Deputy John Paul Phelan: In a year, say, for example?

Mr. Bertie Ahern: In the social partnership concept where everybody was there, I would meet a number of times.

Deputy John Paul Phelan: But outside of that ... extra lobbying and everything?

Mr. Bertie Ahern: Except they had some issue where they wanted to come in, not that many times. But they'd show up once or twice a year, you know. They were like the IFA, if anything was around, they were in.

Deputy John Paul Phelan: All right, thank you.

Chairman: Senator Michael D'Arcy.

Senator Michael D'Arcy: Chairman. Mr. Ahern, you're welcome. There were two reports, Indecon and Goodbodys, and they outlined the effects and the costs for the State for the property tax incentives in February ... and they were published in February '06. Indecon reports stated "extremely high-cost and wasteful mechanism to achieve objectives", and recommended an immediate end to tax breaks for student accommodation, multi-storey car parks and hotels. Can you outline the costs and/or benefits or were there benefits, in relation to these tax incentives prior to the reports?

Mr. Bertie Ahern: I don't have the figures for the costs but, I mean, there were costs. There was always this issue about ... which I used to argue with Finance about the issue of tax foregone. The reports show the costs, I think, and you know the tax ... the incentives were around from '86 on. I mean, the whole concept of that in 1986 was that the ... it was an ... it came from an American scheme, the urban renewal. It came from American cities where there were ... where they were looking at old docklands and old rundown areas and then it moved to the dockland in England, the Isle of Dogs and all these places. Now they're very ... very expensive parts of Canary Wharf, isn't it, where the troubles were? And you know, that ... that's where the designation concept came. Then it came into us here, too. It came in too broad and then there was agreement that the section 23 be changed to narrow it down. Then it was narrowed down again, only into integrated area plans. I worry a little bit, if I can say, Chairman, that the idea floats out that designation was given anywhere. Like it ... in ... it had to be an integrated area plan specified by the local authority to an area where they considered there was extremely high deprivation and where money wouldn't otherwise come. Like, in the old days, when section 23 was there, you got the same tax benefit if you built in Howth or Foxrock as you did for my constituency. So nobody built in my constituency. So when it was narrowed down, that's where the whole thing came from. And, yes, there was a cost. Now, Finance used to say - now, Finance do a good job and I was always pro-Finance and I liked Finance when I was there, I'd a great time - but they would say, "That's a tax forgone". But if somebody has €10 million to invest and they invest it into a deprived area, a development into the designated areas as we did; yes, there was a tax on it but if they put it into some other country ... and remember €10 billion

... €10 billion, which is a big figure even today, was going out of this country per annum into developments in other countries. So one of the considerations we had, Senator, was to try and keep the money in our own patch-----

Senator Michael D’Arcy: Okay. Thank you, Mr. Ahern.

Mr. Bertie Ahern: -----and that was the reason for it.

Senator Michael D’Arcy: The ... you were Minister for Finance in the early ‘90s and during that period you introduced a tax amnesty. It was reported that you were not in favour of the tax amnesty. You subsequently, a number of years later, became Taoiseach. Mr. Ahern, can I ask you, you knew and understood the actions of the Irish banks, you knew about DIRT, you knew about Ansbacher, offshore accounts - just to name a few - why did you then progress down the route of light-touch regulation with the establishment of IFSRA and dividing the Central Bank between IFSRA and the CBFSAI?

Mr. Bertie Ahern: Yes, what was ... just the start of your question there? The first bit, just the-----

Senator Michael D’Arcy: You understood and knew about the actions of the banks.

Mr. Bertie Ahern: Yes-----

Senator Michael D’Arcy: Very ... better than most-----

Mr. Bertie Ahern: Yes, I did because in ... when I came into Finance, I think it was Peter Sutherland who was then chairman of whatever bank, AIB it must have been a ... and the international ... or the, what was it ... corporation they-----

Senator Michael D’Arcy: ICI.

Mr. Bertie Ahern: ICI ... the ICI corporation. I was there to clean up that mess that was left over that ... it still hadn’t been resolved and we saw what the banks did and in the later ... later issues. Of course, remember, the change in the regulator issue, the change in that legislation ... and there were a lot of debates about this. I chaired the meetings, there was quite a lot of ... a lot of heat about that issue. It would take me too long to go through it. But-----

Senator Michael D’Arcy: I have very few minutes, Mr. Ahern.

Mr. Bertie Ahern: Okay, okay. But it came from the Oireachtas committee. It came directly ... the whole concept of change and that the consumer was ignored, the banks were screwing the public and screwing the rest of us ... and we needed to do something about it and that consumer issues had to become the core of it. That’s where it came from. It came directly from the public accounts committee or whichever ... the Oireachtas committee at the time. And it was seen that this was the addressing of the issue. Now, I think, as you know, I wasn’t over the moon about the changes but I accepted ... because the-----

Senator Michael D’Arcy: Was it a mistake?

Mr. Bertie Ahern: I don’t think it was ... listen, times change and there was concern among the Central Bank about it ... and in ... the Central Bank board, which obviously we heard about and ... but I don’t think it was light touch. To be honest, we didn’t know at that time what was going to-----

Senator Michael D’Arcy: Was it appropriate regulation?

Mr. Bertie Ahern: Appropriate regulation by the-----

Senator Michael D’Arcy: Authorities.

Mr. Bertie Ahern: -----by the authorities into the banks?

Senator Michael D’Arcy: Yes.

Mr. Bertie Ahern: Not at all. There was hardly any regulation as far as I can see.

Senator Michael D’Arcy: Can I ask, Mr. Ahern-----

Chairman: How often did you meet the regulator, Mr. Ahern?

Mr. Bertie Ahern: Never.

Chairman: You never met the regulator?

Mr. Bertie Ahern: No. I should rephrase, I did attend once a year to the Clearing House annual dinner where I used to do an annual statement of, kind of, what had been achieved and what had for ... what’s next year’s agenda. But the regulator I never ... sorry, I could have met the regulator at that because he was-----

Chairman: Was that as Taoiseach or as Minister for Finance?

Mr. Bertie Ahern: No, that was as Taoiseach.

Chairman: As Taoiseach. But that was just, kind of ... to paraphrase, just, kind of, a knees-up in the evening where there’s a dinner and there’s a speech and all-----

Mr. Bertie Ahern: Dinner at lunchtime was always a-----

Chairman: This would be-----

Mr. Bertie Ahern: But I never ... the regulator never, never came in to me.

Chairman: Okay, fine.

Senator Michael D’Arcy: Mr. Ahern, in evidence earlier you said that the job for regulation was a matter for the Central Bank and others, it wasn’t your job. In evidence previously, in evidence yesterday, actually, Mr. McCarthy, your Secretary General, said he didn’t read the financial stability reports. In previous evidence, Ministers - your Ministers for Finance, Minister Cowen and McCreevy - both also clearly stated that they didn’t have any handle in terms of the commercial real estate sector, in terms of Anglo Irish Bank. You said previously today that you looked at the deficit and income and expenditure when you were preparing for budgets. Did you read the financial stability reports from the Central Bank?

Mr. Bertie Ahern: Most times. I think I had a reputation, and it’s well known within officialdom, if not politically, that I used to read a huge amount of documentation, so I tended to ... I tended to read, because of my Finance days, and I’d been dealing with finance issues from the time I came into government in ‘87, because I worked with the then Minister for Finance on the social partnership arrangements, so we ... I was ... from ‘87 on I was dealing with financial issues, so I had a habit of reading these documents.

Senator Michael D’Arcy: Can I ask, Mr. Ahern, you didn’t know what was going on in the commercial real estate sector. Dan McLaughlin has said that was the sector that collapsed the banks. Your Ministers for Finance, both of them, have said they didn’t know what was going on in commercial real estate sector or with Anglo. Your Secretary General said he didn’t even read the reports. How were so many people in vitally important positions so ignorant to what was happening in those banks?

Mr. Bertie Ahern: I think the answer to that, and, needless to say, you’d have a few sleepless nights thinking about it in the last number of years, but the reason is it ... you just believed, maybe naively, but you couldn’t have done anything about it if it was otherwise, that the Central Bank, and then the regulator and the Central Bank, were well on top of these issues. Like, I’d have to tell you this, and I don’t want not to say it because it wouldn’t be honest, like, there were 750 people in the Central Bank, or Central Bank-regulator. When I was in Departments, staffs were small enough. Finance was hard-pressed. I thought there were loads of these people and I thought they had loads of time to be checking this and reading this and reading that. And then I see that if you take the main five banks they’ve about 15 or 20 is all that was supervising. I was horrified when I saw that, horrified.

Senator Michael D’Arcy: Mr. Ahern, can I ask you in relation to personal indebtedness? You said you read the financial stability reports, and you can ... if you can bring them up, the ‘04, ‘05, ‘06 and ‘07, which was the final report, and I’ve pursued this line with other witnesses. In 1997 the level of household indebtedness was 71% of GDP. In 2007, the final FSR report, the level of indebtedness had gone to 248%, highest in the OECD. And you said, as you were preparing for budgets, you were there to protect the budget and put in place an expenditure programme but who was supposed to protect the citizens when there was over-borrowing to that degree that we were, that the citizens of this country-----

Chairman: Just put the question. You’ll come in again in supplementary quickly so, okay.

Senator Michael D’Arcy: The citizens of this country were now over-borrowed beyond everybody else in developed ... in the OECD countries?

Mr. Bertie Ahern: Well, in fairness, and I just make the point, I’ve made this point many times before, that the fact that people had assets that were houses wasn’t a bad you know, it wasn’t the end of the world, because you had a saleable asset, and in normal times was going up, but even if it wasn’t going up ... so your level of indebtedness if you were in property, you know, wasn’t always the worst thing. I think there’s sometimes, even now, now, even today there’s an over-concentration of what happened - I’m not talking about the committee, I’m just talking about the debate - in the residential side. I mean, look what happened in the commercial property side. I mean, there was where the madness really took place, where it zoomed from nearly nothing to extraordinary increases, with no collateral behind the individuals that had it, to the property was all over the world. It was doled out like confetti or snuff at a wake, right? And, that ... I think, that was a bigger issue. Now, who should have seen it? Well, the job ... it was the job of the regulator. I mean, I have earlier on today taken my hit for the areas that would’ve been in my responsibility, but I’m damned if I’m going to take responsibility for something that wasn’t.

Senator Michael D’Arcy: Yes, just very quickly. The Chairman, earlier, stated that there was a period in ‘05 ... a lot of witnesses have said there was a period in late ‘05, early ‘06, that if steps had been taken, that the downturn here wouldn’t have been as severe. But anything beyond that, it was only a question of how severely the downturn was going to be. When you

passed over to former Minister Cowen, who became Taoiseach, you felt that you ... the ... you said that the economy was sound. Was it the biggest political hospital pass in political history in Ireland?

Mr. Bertie Ahern: No, I think, anyone who's made Taoiseach it was never a hospital pass, but, no, listen, when I handed over, we still were in a good position.

Senator Michael D'Arcy: Do you believe that?

Mr. Bertie Ahern: I do-----

Chairman: Sorry, Senator, let the witness finish now, you made your supplementary. Mr. Ahern.

Mr. Bertie Ahern: We were still in a good position. We did not think that the investment banks of the world were going to collapse in a short period of time that would precipitate the crisis when it did. We were heading for 55,000 in that year, in 2008 ... if that never happened, at the end, if the liquidity problems never happened, we were going to be on 55,000. We could have, it wouldn't have been easy, but we could have dragged ourself on-----

Senator Michael D'Arcy: Mr. Ahern-----

Mr. Bertie Ahern: -----if it wasn't the huge borrowings that was there and the exposure to the property section which we didn't know about, and remember I didn't know those.

Senator Michael D'Arcy: The analysis, Mr. Ahern, is quite clear in that some people believe it was a liquidity issue was what brought us into ... was the trigger. Nyberg says it was the trigger, Morgan Kelly said that the markets understood that the Irish banks' balance sheet was the problem, not the liquidity.

Mr. Bertie Ahern: I accept that.

Senator Michael D'Arcy: Okay, You do, excellent.

Chairman: Thank you. Senator Marc MacSharry, please.

Senator Marc MacSharry: Thanks very much, and welcome, Mr. Ahern. Thanks very much for being here. Mr. Cowen mentioned, in his statement, when he was in, that his budgets were based on responsible fiscal targets at the time. However, during the course, we heard about the Wright report, and it said that the Minister was advised that the country was depending on unsustainable tax revenues and the economy had been dramatically overheated, and that problems would emerge, which were due to domestic policies, and that a more sustainable fiscal position had to be maintained. Did you discuss the Department's advice in the budget discussions with Mr. Cowen, as Finance Minister? And what importance was given to this advice during your discussions?

Mr. Bertie Ahern: The ... always, during the budget discussions, from almost Easter on to the day of the presentation of the budget, there would be considerable discussion at Cabinet, and, near the end, from the time of the Book of Estimates, through to the budget, obviously, the Taoiseach, Tánaiste, and Minister for Finance would also have a number of discussions, so there would be quite a lot of discussions about what the ... while it was the Minister for Finance's constitutional position to produce his budget, he would keep people informed, and certainly would keep me informed.

Senator Marc MacSharry: When did the Book of Estimates comes out, typically, in a year?

Mr. Bertie Ahern: It used to ... it's changed now where we had a unified system, which is ... I totally agree with, and which Mr. Cowen, to his credit, made a huge amount of changes, where it all comes together. But, in the old days it used to be the Book of Estimates was around Halloween, around October.

Senator Marc MacSharry: Around Halloween. Okay, that's fine. Can you outline ... I've asked all your predecessors and secretaries of Department this. Can you outline, in your term as Taoiseach, ten or 11 years, how many, if any, representative organisations, bodies, charities, unions, public interest groups, politicians, political parties or other groupings asked you to decrease expenditure and increase taxation?

Mr. Bertie Ahern: None.

Senator Marc MacSharry: Okay. In terms of entry into EMU, did you receive advice from anybody at that time, as to the need, with a much reduced toolbox, with no control of monetary policy, to introduce a fiscally controlled method of keeping the market calm?

Mr. Bertie Ahern: No. I think the lure was lower interest rates, more stability which gives more flexibility. I think it was the recommendations of the Wright report or maybe it was one of the other reports, where it said for EMU countries or for new countries joining, you know, there should be a course, a learning course of ... to be ready for it because you moved from the position where the old system was borrowings against deposits and that system worked for 50 years uninterrupted and then you work to a position where there was cheap money.

Senator Marc MacSharry: With a bit of hindsight, was this a mistake that this wasn't considered, we were looking forward to the upside, but did we adequately consider the downside?

Mr. Bertie Ahern: To be honest, I would say it was never discussed that the banks would move so quickly to be able to get so much of their borrowing on the wholesale international market. In the early times, that was probably seen as a good thing. You know the old "neither borrower nor lender be" but that went out the door and really the banks moved to a position where they could get without exchange risks ... I mean in the old days, when I was in Finance, the exchange only went at that stage, so it was a very tight position and it was not just because of borrowing and lending because it was the exchange regulations.

Senator Marc MacSharry: I know and sorry to push you, but it's just I have a few things to get through.

Mr. Bertie Ahern: Go ahead.

Senator Marc MacSharry: With the benefit of hindsight as a nation and as a Government, were we happily blinded by the upside without adequately assessing the potential for a downside?

Mr. Bertie Ahern: Listen, I think low interest rates was... should we have thought that our banks were all going to move away from the old traditional ways? Maybe we should but I have to say I don't think there was any consideration given to it at the time.

Senator Marc MacSharry: Okay. I am going to refer to a publication which I don't think you have Mr. Ahern but I will just describe it first and if Mr. Ahern is agreeable I will quote from

it. It is an article from *The Sunday Times* from 15 January 2006. The headline of the article is “Noel Ahern hits out at bank greed.” He was Minister for housing at the time and I would like to quote from it if that is agreeable.

Chairman: We can see how Mr. Ahern then feels about responding to it then.

Senator Marc MacSharry: Okay. It says, in the article, the then Minister for housing, Noel Ahern, spoke of Irish housing, “banks and financial institutions of ‘greed’ and ‘reckless behaviour’ and of ‘hyping up’ the property market with 100% mortgages and interest [rates]” - I am quoting continually here:

Despite the record supply of new homes in 2004 and 2005, Ahern said the prices of houses was likely to increase by more than 10% again this year. “The rampant competition from market share between financial institutions is one of the factors why all predictions for house prices have been wrong. They are creating a false demand which developers are cashing in on,” the minister said. [I am just going to finish now in a second.] The banks hyped it up at a time when everything was going well. It’s all about market share.

It goes on, in the same article it happens to say where the regulator, Mr. Liam O’Reilly, chief executive of the Financial Regulator, “had warned that 100% mortgages were niche products that should not be marketed at a mass audience”. It goes on significantly from that. You would have been aware, not least of the role of the other Deputy Ahern at the time of his role as Minister for housing, that these were valid concerns and how right he seems to have turned out to be. What actions would have been taken or what was your view of his views at that time, which, as we have heard from Senator D’Arcy was still at least to some people’s minds within a timeframe that action could have been taken to usefully reduce our exposures?

Mr. Bertie Ahern: Yes, without going too long about it because I know your time, but from the summer of 2005 building societies mainly - I don’t think it was the banks at the time but maybe it was - they were looking at bringing in a number of different schemes. The one that was always alright was the 100% loan-to-value scheme, it wasn’t the only one, there were other ones. He believed strongly - or his Department - that prices were decreasing at that stage and there was stability in the system and at least they were getting to some stability in the system and that this was going to hype it up again. And the Minister of housing and his officials felt very strongly about this and they wrote to the regulator and they wrote to the Central Bank, I think, and the Department and they made quite an issue about it over that summer. And to the best of my recollection, there were a number of meetings held between the Department of housing and the regulator at that stage about those issues. There were guarantees being given. I know about ... that the 100% loans weren’t that much, though I saw in some of the correspondence I think you sent me that in ... there’s one stage it’s mentioned that, in 2006 or 2007, there was 100% ... or a third of the loans were given out on the 100%. So there wasn’t much control over that. But the view was, their view, that it was only to be used in very isolated ways. But the Minister of housing - it happened to be my brother at that stage - felt very strongly that this was a disaster, that they were hyping it and going against the trend of where we should be. But he wrote and there were meetings and it was followed through and-----

Senator Marc MacSharry: Okay, so he wrote and there were meetings. With the benefit of hindsight again, and I know hindsight isn’t foresight, or foresight isn’t hindsight, ought we have listened more to the Minister for housing of the day in terms of determining what action should have been taken?

Mr. Bertie Ahern: I had to at the time but he ... you know, I think they had made the case. Would it have made a huge difference? I think it would have made some difference, I'm not saying it would have ... but it certainly ... the banks were looking for market share and I think I said, in reply to the Chairman earlier on this afternoon, the very fact that they gave 100% loan-to-values, or anything near it, meant that they were speculating against an increase. Because you don't give 100% with no guarantee because you were going to make no profit for the banks unless you believed that the price was going to go up. So his point, his central point, and that of his officials - because I know there were a lot of letters and documentation at the time about it - was that this was hyping the price.

Senator Marc MacSharry: Okay. Just ... I know I'm out of time-----

Chairman: Yes, yes. Sure, go on, yes.

Senator Marc MacSharry: -----but I just ... if I can just have a little bit of leeway. I have to go back to the tent in Galway for a moment. The Galway tent to many people in society is a phrase synonymous with much of what was wrong in a lot of peoples' eyes, arguably, over the last number of years. Can I ask you to confirm, was this a fundraiser for Fianna Fáil?

Mr. Bertie Ahern: Yes.

Senator Marc MacSharry: Was it open to all sectors or were developers specifically targeted?

Mr. Bertie Ahern: Everybody.

Senator Marc MacSharry: Did you ever, in advance of a budget or an election, talk business in the tent with developers or other people?

Mr. Bertie Ahern: No.

Senator Marc MacSharry: Did any liaisons with anybody in this tent ever influence a policy decision specific to the construction or industry ... the construction industry or tax incentives or so on?

Mr. Bertie Ahern: No.

Senator Marc MacSharry: With the benefit of hindsight do you feel that the Galway tent, as a fundraiser, have left a grubby impression on Fianna Fáil?

Mr. Bertie Ahern: No, I don't agree with that. I accept there's some people in Fianna Fáil ran away from it, but, in my view, they were wrong.

Senator Marc MacSharry: Were Fianna Fáil wrong to abandon it-----

Mr. Bertie Ahern: Yes.

Senator Marc MacSharry: -----as a fundraising?

Mr. Bertie Ahern: Yes.

Senator Marc MacSharry: They were. Okay. Can I just very finally ask there, or ... and I've asked this of several other people too. In establishing the ... this inquiry, the Taoiseach in the Dáil spoke of how he expected it would uncover, and I'm paraphrasing, but I quote now,

“the axis of collusion between Fianna Fáil, developers and the banks”. Would you have any comment to make on that?

Mr. Bertie Ahern: It’s just a nonsense. There was never any collusion in my 34 years between Fianna Fáil, or for that matter any other party, developers or any other sector of Irish society. I mean, I think it’s a slur on the political system which is unfair. Political parties have to try and earn a crust to run their parties and I think Minister Cowen correctly said, when he was leader ... I was 25 years a senior officer, either president, vice president or treasurer of Fianna Fáil and fundraising was a bloody nuisance. You were all the time trying to get ends to meet. Galway was one of the only pleasurable ones in it, where it was a bit of craic. The rest of them were nuisances. And that’s my view of it.

Chairman: Thanks. Okay, thank you. Senator Susan O’Keeffe.

Senator Susan O’Keeffe: Thanks, Chair. Mr. Ahern, what were people paying for in that case, coming to the Galway tent if it wasn’t for some access to ministers, to the Taoiseach? What were they paying for?

Mr. Bertie Ahern: Well, it usually rained in Galway race week so at least you had a tent to stay dry.

Senator Susan O’Keeffe: I don’t think that’s the answer I was-----

Mr. Bertie Ahern: Well, you got a bit of food and a bit of fun, and you know, some people met their wives to be and things like that in it.

Senator Susan O’Keeffe: Really?

Mr. Bertie Ahern: Yes.

Senator Susan O’Keeffe: And, Mr. Ahern, on a serious note, would you not say that-----

Mr. Bertie Ahern: Oh, I’m dead serious. That was one of the good things about-----

Senator Susan O’Keeffe: I had no idea that Fianna Fail party was involved in dating services. But what I am asking is what-----

Mr. Bertie Ahern: Well, it happened in the tent.

Senator Susan O’Keeffe: What I am asking is whether or not people were paying effectively for access to the Taoiseach of the day, the Tánaiste of the day, whomsoever was in the tent. Mr. McCreevy said he didn’t much like going but he did go. It was, sort of, part of his, I suppose, duty for want of a better word. Weren’t people paying for access? Whatever they did with the access, but is that not what they were paying for?

Mr. Bertie Ahern: If you go down to, you know, the Fianna Fáil chicken and chips do in Ballydehob, and you pay in because there’s some member, I mean, is that access? I mean ... I don’t-----

Senator Susan O’Keeffe: I’d argue it is, yes.

Mr. Bertie Ahern: Well, I can tell you most-----

Senator Susan O’Keeffe: It’s an opportunity to speak to you as Taoiseach. That’s access,

Mr. Ahern.

Mr. Bertie Ahern: They wouldn't, particularly. I mean, they'd be there at their own table having a-----

Senator Susan O'Keeffe: So they didn't speak to you?

Mr. Bertie Ahern: Well, they ... yes, I used to go ... I used to make a practice of going around and thanking people for coming, from every walk of life.

Senator Susan O'Keeffe: Of course.

Mr. Bertie Ahern: But it's ... it was a social occasion. I mean, I'd hate to think that political parties that look for the votes of the people bring in regulations that they can't meet people. That'd be a sad day.

Senator Susan O'Keeffe: I would just like to ask you, this is a quote that I'm specifically saying was in *The Irish Times* but I think you've made it before. You said, "If I'd cut spending, they would've crucified me." Is that ... is that .. would you accept that? I mean I appreciate this is in an interview in *The Irish Times*. The reason I'm asking you is they ... you're saying there "they would've crucified me". I would argue that, perhaps if you had cut spending, the nation wouldn't have been crucified.

Mr. Bertie Ahern: Well ... you know ... listen, when I was Minister of Finance because they were far tougher times and the debt-GDP ratio was 110%, I was cutting expenditure all of the time. But ... and I think I spent my life saying "No", as Minister of Finance and as Taoiseach as well because there are always ... unfortunately, and I suppose it's always the same worldwide, I don't think it's unique to Ireland, the demand-led schemes and the demands are always more than the available resources. So, you know, you're always trying to say "No" and even if we show on the chart today expenditure is going up, you can take it that if the ... if line Departments got their way, it would go up three times more. There's always the pressure for more spend-----

Senator Susan O'Keeffe: You did make the point to Senator MacSharry that, you know, that there was nobody that didn't ask you not to spend more. I mean isn't the difference between being in government and being either in opposition or outside the political system is that you are always asking and the privilege, if you like, and the responsibility of government is that you can see the books and you know where the money is or isn't, and that you are the one elected to make the decision whether that money should be spent or not. And yet there's a suggestion here that, "Well, everyone was asking me to spend so I spent."

Mr. Bertie Ahern: I-----

Senator Susan O'Keeffe: Surely you should have made the decision?

Mr. Bertie Ahern: No, well, a decision was made as it is in most cases not to spend. No, but remember in this case ... I don't want to forget the position that in ten of the 11 years, there was a surplus. That the effectively the net position of the GDP ratio, as the IMF liked to say, was 12%.

Senator Susan O'Keeffe: But how is that something to be proud of when we've seen what happened next?

Mr. Bertie Ahern: No, no-----

Chairman: Deputy, I-----

Mr. Bertie Ahern: Very proud-----

Chairman: Sorry, excuse ... just Mr. Ahern, just give me a moment. Senator, I would ask you not to be leading in your questions.

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

Chairman: Put the question please ... remove any value from it.

Senator Susan O’Keeffe: Thank you.

Chairman: Mr. Ahern, please.

Mr. Bertie Ahern: I’m saying, Senator, that when you are trying to responsibly do your job and carry out your functions, you want to have within the budget year that you’re dealing with, that your ... you stick as to what the rules of European Economic Monetary Union were, and the Growth and Stability Pact; that your budgets were either in surplus or close to surplus; that your debt-GDP ratio was low; that your current budget deficit was low; and that you could use resources enough to deal with the demands that were there. As I said earlier on today ... so that was the position. I think we were very responsible. You asked me, in hindsight, if I knew that when there was a hole in the budget would we, as Germany did ... built up a surplus that you would deal with that difficulty. Of course, in hindsight, you would do that. But each year I, and Ministers, and I think the country ... economic analysis of Ireland ... remember we were held up as the model worldwide for a long time, that we were doing the right thing.

Senator Susan O’Keeffe: In relation to the various warnings that were proffered by people like the OECD, the IMF, the ESRI, and Deputy Murphy went through some of those, and I know you’ve acknowledged here that you read many of those, did you actually discuss those with officials, either in your own Department or the Department of Finance? Did you make any plans to deal with the, “Well, what if some of those do come to pass?” Or, did you read them and make a decision to keep going?

Mr. Bertie Ahern: No, I’d have to say the ... I was always concerned that, as we chased supply ... and all our efforts were to try to deal and build enough houses to deal with the demand that was there, that was the right thing to be doing ... supply. When it went over that figure, I was concerned. Like, when we went to 65,000 - whatever it went, 65,000, 77,000, and 88,000; I think they were the three years - I was very concerned about that because I couldn’t understand why the sustainable level that all these reports had been telling me for years would have been between 50,000 and 60,000. Now, I did discuss that and I remember being told that I didn’t factor in the supply side correctly, because between 2004 and 2006 the population went up 300,000. So if you factored in that, the 55,000 would go up. And that was a credible enough answer, in fairness.

Senator Susan O’Keeffe: Mr. Ahern, when you were leaving and, obviously, there was briefings given, obviously, to Mr. Cowen and Mr. Lenihan coming in behind you ... I think you have these documents, DOF03151. This was a briefing document ... so I’m assuming that these would have been briefing documents you would have known about. The Department was saying, “We are now factoring a €2 billion shortfall in taxes but have not publicised this as yet.” [this is May 2008] “This represents a significant worsening of the position for this year, with serious consequential impacts for next year.” And then it goes on to say in relation to the banks:

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There's a virtual cessation of normal wholesale lending activity. There is general negative international sentiment against Ireland. The concerns that initially led to credit markets seizing up last August are persisting. Major financial institutions continue to disclose major write-downs.

So these were the briefing notes passed between Departments at this point. What does that tell you about the state of the economy as you closed the door and left?

Mr. Bertie Ahern: Well, from the year earlier, I mean, the housing ... from second ... I think the entire second half, maybe even the three quarters of 2007, houses ... the number of houses, and, thereby, the revenues, were going down. It was showing that we were going to be stretched in 2008 and all the reports show that. But equally, as I said earlier on, even in the growth and stability pact of December 2007, the Department of Finance, which would have been going to Brussels in January 2008, the Department of Finance were indicating that we would grow 3% in 2008 and 3% in 2009.

Senator Susan O'Keeffe: But these were the confidential documents that you would have seen, I'm ... you would have known the content of this as you left ... pretty much as you left, this is what you were leaving behind you.

Mr. Bertie Ahern: Yes.

Senator Susan O'Keeffe: So what was going through your head as you left? Were you satisfied that the place was in good order? Were you worried? Were you ashamed that things were about to ... what were you thinking?

Mr. Bertie Ahern: I certainly wasn't ashamed. I believed that the place was in good order but that we had problems and the problems were the liquidity. We had that ... while houses were coming down, that didn't upset me, but we were still going to grow by 3% and 5%, and, as I said before, in 2008, even though we lost 28,000 jobs in construction, which was because of the houses coming down ... sorry, 20,000 jobs ... we were able to take all of those up in financial services. So we were still managing to deal effectively with what was the turn down in houses. And that was my view maybe until the summer.

Senator Susan O'Keeffe: At that same time, part of the information that was coming through and, I think, somebody referred to it earlier the ... the St. Patrick's Day massacre. What was your knowledge in relation to the contracts for difference, in relation to Seán Quinn and Anglo Irish Bank? What did you know? What had the Minister for Finance told you at that time? What had you had ... had you had any discussions with the Central Bank, with the Financial Regulator about that particular problem, which was noted here as having the potential for a very serious problem and that the auditors - the company auditors - were deferring-----

Chairman: Final question now, Senator.

Senator Susan O'Keeffe: -----signing off on the audited accounts and that money had been taken from the insurance part of Quinn?

Mr. Bertie Ahern: Well, you know, I have no recollection, I mean, I discussed ... of that particular issue. I had-----

Senator Susan O'Keeffe: Of the contracts for difference?

Mr. Bertie Ahern: Yes. I've no-----

Senator Susan O’Keeffe: You’ve no recollection?

Mr. Bertie Ahern: I’d no knowledge of it. And I think I would have had, to be quite honest, because, I think, if it had been raised with me or if I had read it, I would have known. I did know about the difficulties in Anglo because ... when the share price went down and in ... the Minister of Finance, as soon as we returned from the St. Patrick’s Day - I was in the United States, he was in ... wherever he was - he came straight to me, he came to my home. He had been briefed and he had been on the phone and I think he came straight from the airport to my home to brief me on that situation because he and I were both concerned about it ... what was going on.

Senator Susan O’Keeffe: And in that briefing at your home what-----

Chairman: Could you ask a final question now?

Senator Susan O’Keeffe: In fairness, Chair. What was the nature of that, what was the level of his concern and what did you both, or either of you, do at that point in relation to the problem you had now just been appraised of?

Mr. Bertie Ahern: Well, I know when he went back he was deeply involved with his officials about it and ... but he had been on the phone, I think, fairly regularly over the St. Patrick’s Day period with them. But, obviously, market sentiment to Anglo, in particular, internationally was growing. And that was a big concern.

Senator Susan O’Keeffe: Mr. Cowen wouldn’t normally have come to your home, I take it, you know, just to brief you about something like that, would he?

Mr. Bertie Ahern: No, but I think he was coming back from the airport and came in to me. But we wouldn’t normally ... again, I mean, he was concerned about the issue and I was concerned about the issue. We’d all been away for St. Patrick’s Day and he updated me on it.

Senator Susan O’Keeffe: Did you keep an eye on it, then, through the-----

Chairman: Sorry, I’m going to have to go on now, Senator.

Senator Susan O’Keeffe: -----that would have been, let’s say, 20 March? Just bear with me, Chair.

Chairman: No, you’re to conclude your question now.

Senator Susan O’Keeffe: Well, this is my last question.

Chairman: Yes.

Senator Susan O’Keeffe: That was around 20 March, we’ll say-----

Mr. Bertie Ahern: Yes.

Senator Susan O’Keeffe: -----so you still had, whatever, eight weeks or so. So what did you do yourself in that period of time in relation to this?

Mr. Bertie Ahern: Well, I didn’t take any action, it was the Minister of Finance who was taking the action but he ... I knew that he was ... had been deeply and more deeply involved with his officials at that period about what was going on in Anglo. None of the other banks were

being mentioned at that stage.

Senator Susan O’Keeffe: Okay.

Chairman: Okay. Thank you. I now invite Deputy Joe Higgins. Deputy Higgins, ten minutes.

Deputy Joe Higgins: Yes. Mr. Ahern, under the terms of reference of the banking inquiry, one of the issues that has to be looked at is the role of the Oireachtas in the matter of regulatory and supervisory systems and practices. During your term as Taoiseach, do you believe that Oireachtas committees were structured so as to have sufficient authority to effectively examine financial matters, fiscal matters or regulatory matters?

Mr. Bertie Ahern: I think the committees did their best. And, I think, one of the advantages of the committees is that they can call people in and they can discuss it but, as you recall, Deputy, there were very ... there was very little debate on these issues in the Oireachtas.

Deputy Joe Higgins: And, Mr. Ahern, issues that witnesses at this inquiry have identified as causing the inflation of a major property bubble - and then which caused a major crash - for example, exponential increase in lending by banks, particularly in property, major speculation and profiteering in building land and rocketing house prices, can you remember being challenged, either by committees of the Oireachtas or even in the Houses of the Oireachtas in a significant way on any or all of these issues that caused you to have serious pause for thought?

Mr. Bertie Ahern: No. No. On the issue the Chairman raised earlier on about affordability of housing and the inability of the ordinary, you know, Joe and Mary to be able to get their mortgage and to be able to get a house ... on the affordability issue, that was raised, you know, probably every week in questions. But on the banking issues or you know the ... the major issues as they turned out to be ... very little, issues about speculation ... land speculation, the land issue. As you know, I was pressed in the House to go back and look at land prices when it was showing that land prices had moved from 12% of the cost of house to 25%, to go back and look at the housing report names ... the Kenny report of years earlier and I did that. I spent a considerable amount of time with the then Attorney General looking to see what could we do short of a constitutional referendum on property rights, which we weren’t very anxious to get engaged in. So that issue was raised a lot.

Deputy Joe Higgins: Yes, Mr. Ahern, in regard to that issue, would it be fair to say that, in fact, you allowed land speculation to run riot? You may remember, in 2004, it was raised in the Oireachtas, where a syndicate of rich people had bought 11 acres of building land in Stillorgan only four years before, had got planning permission and then sold it for a gain of €32 million, and your Government had reduced corporation ... capital gains tax to enrich them further. Why didn’t you take action to stop that type of profiteering and speculation?

Mr. Bertie Ahern: Well, there was no ... I mean, you’re correct in was there an anti-speculation tax to stop that? There wasn’t but what we had been endeavouring to do from 1997 on was to try to get more land and to try and streamline the difficulties there were to try and get more land built on, not zoned, because there was more than adequate land zoned. But it was to try to get into a situation where we would have more building where we could get supply up. And we were very active in doing that. But because the prices kept going up ... were developers making more money on that? Of course, they were.

Deputy Joe Higgins: And was your close relationship with developers and builders a factor

in that you didn't take action against them, Mr. Ahern?

Chairman: That's a leading question now, Deputy - close relationship. Establish the relationship and then make the question.

Mr. Bertie Ahern: Well, I didn't have a close relationship for a start. But I don't believe that in trying to build supply and trying to get more houses built ... yes, you could say you're encouraging builders to build more houses because we had to move from a situation where we'd 40,000 houses to 60,000 houses or 55,000 houses. But it was our position to try and get more and more supply.

Deputy Joe Higgins: Well, to establish a relationship, Chairman ... Mr. Ahern ... two issues in regard to that. Ms Elaine Byrne in evidence to this inquiry, found that between 1997 and 2007, of the €1.8 million donated to Fianna Fáil, and anything €5,000 or under did not have to be notified, but of what was notified, 35% or €635,970, was from property and construction interests. Is that not significant? And, secondly, did tribunals show the corruption of councillors, some from your party, by property and developer interests, who were bribed by these profits?

Mr. Bertie Ahern: It did. And that is a matter of record. But I don't believe that anything we were trying to do as a Government, other than trying to encourage supply, was wrong. We had to get to ... house prices, or the demand for houses were going up for many reasons; people had more money, people had jobs, the demographics of the country. We were ... we'd only 1.1 million houses at one stage, we got it up to 1.9 million houses. But even at that, *pro rata* against other countries we hadn't got enough of houses. So what happened was too much of it came together. But I don't think we were wrong in the early years, in particular, to try to get up supply.

Deputy Joe Higgins: Mr. Ahern, you said earlier that you take no responsibility for what the banks, or, indeed, the Central Bank or the regulator did. You don't take responsibility for alleged perhaps ... whatever, in that regards. But I put it to you, Mr. Ahern, that you have to take responsibility for this reason; that you launched the Better Regulation in 2004 and in your foreword it's quite clear that regulation was to be subordinated to allowing the banks to have sharp competition for profits. And, secondly, can I put it to you, Mr. Ahern, that in a speech to the Irish Bankers' Federation in March 2006 and the federation of international bankers, you said the following, "I know that your industry is bottom line driven and I can assure you that the Government is very conscious of its role in assisting you to maintain a healthy bottom line." So the points that I would ask you to comment is this; that you were a main sponsor of light-touch regulation which allowed them to do what they did and not only that, but this shows that you were encouraging their profiteering.

Mr. Bertie Ahern: Well, dealing with both issues, I never launched or wrote a foreword to any document that was to do with light-touch regulation. The document of 2004 was for good regulation, for better regulation, based on the OECD efforts at the time that countries should not be regulating in areas that were not necessary and that for poor regulation which was affecting economic progress and stability of economies. So there was no ... the principles that were laid out in the better Government regulations or was entirely different. So I think the purpose that you've put on it is just misleading it, either intentionally or deviously. What was your second question?

Deputy Joe Higgins: Well, did your attitude towards light-touch regulation - evidence was given that the IFSC was a factor, that you didn't want to affect that - allow the type of light-touch regulation under which the banks profiteered?

Mr. Bertie Ahern: Deputy ... I did ... I ... though, at times, I'd be a bit like yourself. I think nationalising banks mightn't be a bad idea, but even if you were ... they were nationalised, they'd need to be profitable so I wasn't against the banks making a profit.

Deputy Joe Higgins: Last point then Chairman and Mr. Ahern is this. Mr. Ahern, you said in your opening speech page 2:

The main economic problems facing Ireland in the mid-1990s were high unemployment, net emigration, relatively low incomes and the need for increased productivity. A decade later these problems were substantially solved.

And then you said Mr. Ahern in page 19, reminding younger Members of the Oireachtas, when you came to the House in '77:

National debt was an unsustainable millstone ... 20 % of all taxes raised in the State were used to service the national debt. In 2007, my last full year as Taoiseach, that figure stood as low as 4.3%.

Can I put it to you, Mr. Ahern, that it would be delusional to think that that, or to allow that, or hope that that would be your legacy, when the gigantic property bubble which happened on your watch, created a situation where a few years later, you had the return of precisely the evils that you described of unemployment, mass emigration and a huge national debt and 20% currently, unfortunately, of taxes going to service that debt?

Mr. Bertie Ahern: Yes, unfortunately, we did return to a lot of the issues that were there. Unemployment ... but thankfully we didn't go back to where we're going. We're back at 9% now and in fairness to the current Government, this year's current budget deficit will be down to 2.5%. It's going to take us a while to get the debt-GDP ratio down. But, Deputy, I have to say if the corrective action over many, many years was not taken to decrease what was a very, very high debt, we would have been in a really difficult position. I do accept that some of the very good indicators that I'd worked most of my political life to achieve were badly reversed. I accept that.

Chairman: Thank you very much. Deputy Kieran O'Donnell.

Deputy Kieran O'Donnell: Thank you Chairman. Mr. Ahern, the programme for Government and social partnerships created a need to finance pre-agreed commitments from available revenues. Can you discuss the extent to which, in your opinion, such long-term political commitments influenced and constrained the Government's budgetary decisions?

And I'm referencing, Chairman, page 101 Vol. 3, and also page 81, Vol. 3. So page 101 initially, which is from the Wright report. And that's, basically ... Mr. Wright basically says:

... the Programme for Government and Social Partnership processes helped overwhelm the budget process. Instead of providing an appropriate fiscal framework for [privatisation] of competing demands [prioritisation, rather,] ... the Budget essentially paid the bills for these dominant processes. Relatively clear advice to Cabinet in June on the risk of excessive spending and tax reductions was lost by the time of December Budgets.

And specifically figure 26, on page 81, encapsulates this and that's really, I suppose, what I want to ask Mr. Ahern about. Can you explain, first of all, you continually speak about taking responsibilities for the areas that you're responsible for. Do you take responsibility for the

budgets in your time as Taoiseach?

Mr. Bertie Ahern: There's collective responsibility, so, I'm Head of Government.

Deputy Kieran O'Donnell: Okay. Can you explain why in all the budgets, we'll say, between 1999 and 2008, the amount that gave rise, the actual budget day outcome, the amount that was spent in the budget itself, was significantly more in many years than the actual document, the fiscal framework, that was presented to the Cabinet by the Minister of Finance in June?

Mr. Bertie Ahern: I'd say that was always the case. The process is that the Department of Finance produce an early document, it's, that document is used as the opening discussion of a long process that goes all the way up for six months and I'd be amazed if there was ever a year where the opening document Finance was less. I'm talking about in all time, not just recent times.

Deputy Kieran O'Donnell: But can I make quick reference, Chairman, to page 95 of Vol. 3, which is effectively David Doyle's testimony to Mr. Wright, where he says:

The pace of economic activity was strong 2001-2006 but the Department did not believe that this could continue. In 2005/6 the Minister was advised ... the country was depending on unsustainable tax revenues [and] that the economy had ... dramatically overheated.

You would have been aware of that advice, Mr. Ahern?

Mr. Bertie Ahern: Yes, I used to meet the senior management, the MAC, of every Department, every year, a few times, so I wasn't just based on Government discussions. So I would sit down and spend several hours with the MAC of each individual Department.

Deputy Kieran O'Donnell: Were you aware in 2005 and 2006 that the economy was overheating because of the property sector?

Mr. Bertie Ahern: I was aware of the level of indebtedness the country had to the property sector and I would have been that the level of taxation that was coming from the property sector was not going to be staying at the level that it was. But, Deputy, I would not have been working on the base it was going to go from 88,000 to 8,000.

Deputy Kieran O'Donnell: Do you believe that those property taxes were sustainable?

Mr. Bertie Ahern: Not at 88,000, at 55,000, which is where we thought we would end up.

Deputy Kieran O'Donnell: So if those taxes were unsustainable, why then, throughout those years, Mr. Ahern, did we see rapid increases in Government spending? In '03, it went up by €2 billion; '04 by €2.7 billion; '05, €3.7 billion; '06, €5 billion; '07, €6 billion; right, every year. You also, in that period, in the 2003 budget, Mr. McCreevy announced that you would end all tax incentives at the end of 2004. He came along in the 2004 budget, he said he was bombarded, so he basically extended the tax incentives to the end of 2006. They were further extended to the end of July '08. Do you stand over those extensions?

Mr. Bertie Ahern: Yes, I stand over the extensions.

Deputy Kieran O'Donnell: Why?

Mr. Bertie Ahern: Well, can I answer all your questions or is that your only question? I don't want to take all your time.

Deputy Kieran O'Donnell: No, they're all interlinked questions.

Chairman: We will have to allow time, Mr. Ahern. Plenty of time for you.

Mr. Bertie Ahern: That particular one, you can't, as we found out for ten, 15 years or maybe longer, when people contractually get themselves into a position where they're going to do a development and they've gone for planning or there's a delay in planning, or there's objections to planning or there's problem with legal title of site, there's a whole myriad of issues that stops a developer or a builder getting on site when they think they've a designated site. It was always the view that if you cut those off dead, there would be challenges to it and you wouldn't sustain it. That was the view and it was a view that was held in Finance. Minister Cowen and the Department were anxious to cut them off. There were no big deals, actually, under the designation after-----

Deputy Kieran O'Donnell: I'm not talking-----

Mr. Bertie Ahern: -----after 26, I think-----

Deputy Kieran O'Donnell: I'm not talking about Mr. Cowen, I'm talking about Mr. McCreevy.

Mr. Bertie Ahern: Sorry.

Deputy Kieran O'Donnell: Mr. McCreevy announced in the 2003 budget that you were going to end all tax incentives at the end of '04. You then came along in the 2004 budget-----

Mr. Bertie Ahern: And we extended it.

Deputy Kieran O'Donnell: To the end of 2006.

Mr. Bertie Ahern: Yes, for some of the reasons that I just mentioned. I mean-----

Deputy Kieran O'Donnell: So then, why did you come along and extend it again to '08?

Mr. Bertie Ahern: Well, the extension in 2008, which didn't make a lot of difference, to be quite honest, because there wasn't too many big deals or too much happened after that period. But Minister Cowen took the view that he wasn't just going to change those that were to do with property; that he was going to all of the other ones as well ... the 24 or so, and he wanted to deal with the entire lot together and end them. I supported that and he followed ... we followed through on that. So, I do stand over that ... is what you asked me. But you asked me ... you asked me a lot earlier a question that I just ... what was that?

Deputy Kieran O'Donnell: The question, really, was, I suppose, specifically in the budget packages between the difference between what the Minister for Finance and the Department of Finance would've brought to Cabinet and what was actually spent, the highest difference was in the year 2007.

Mr. Bertie Ahern: Yes, yes.

Deputy Kieran O'Donnell: Was there any coincidence that was an election year?

Mr. Bertie Ahern: Well, the Minister for Finance said that that does come into consideration and, you know, I'm not-----

Deputy Kieran O'Donnell: You were Taoiseach at the time-----

Mr. Bertie Ahern: -----I'm not going to-----

Deputy Kieran O'Donnell: -----you'd have had to allow-----

Mr. Bertie Ahern: -----I'm not going to deny it but I don't think it's a huge part of the budget. But can I just say ... you mentioned about David Doyle and David Doyle, in fairness to him, as a good Secretary General, he regularly made the point that we could not sustain that level ... that figure. So, he did do that and in the meetings ... the bilateral meetings I had, he regularly made that figure. But we were talking about coming from whatever it was ... 77,000 or 75,000, down to what the Department of Finance believed was the sustainable figure, which was 65,000. That was always what we were talking about. And I believe, Deputy, to this day, if that had have been the correction that was necessary, without too much difficulty to the budgetary situation, we could have done that. If the correction was ... it went 88,000, 77,000, 65,000 and it was projected for 50,000 or 53, 000 in 2008, we would have been able to that without knocking out budget. And can I finally say on this-----

Deputy Kieran O'Donnell: I've very little time left.

Mr. Bertie Ahern: Sorry, but can I finally say that Mr. Doyle was also, and his successors, were also the people that produced the document that said in 2008 ... in January 2008 that, for the next three years, we were going to grow between 5%. So, like, if we give them some credit, on one side, let's give them some responsibility, on the other.

Deputy Kieran O'Donnell: But the fact was, in 2006 you were told that the figure ... that the tax-----

Mr. Bertie Ahern: The fact is that in 2008, Deputy, they were still saying-----

Deputy Kieran O'Donnell: But 2006, right, and, effectively, all the ... capital gains tax had gone up by five times from ... from your time ... you came in 1997, stamp duty by three times, cyclical taxes by two times. So the question is: how can you stand over a situation, Mr. Ahern, where, effectively ... was it irresponsible, in the context of those level of unsustainable property taxes, to boost spending at such a rapid rate between '04 and '07, in particular, during your time as Taoiseach?

Mr. Bertie Ahern: I don't believe it was, Deputy, because, in that period, the income for that year was going way higher than the Department said and if I had gone-----

Deputy Kieran O'Donnell: This was property taxes.

Mr. Bertie Ahern: There were property taxes but they weren't all long-term taxes either. Like, we had up to ... earlier on we put up the record of what the capital expenditure was in one of those years ... went over 10%. Like, you know, there is nothing to stop you bringing it back down to whatever figure you need to do it. Like, you can't do it in pay, if you take doctors on or nurses on.

Deputy Kieran O'Donnell: Can I ask you one last question, Mr. Ahern? Page 21 and page 22 - they're interrelated. You said, 'I would have done things differently', and you said, 'I did make mistakes'. Specifically, what would you have ... what mistakes did you make, specifically? And specifically, what would you have done differently during your term as Taoiseach?

Mr. Bertie Ahern: I think I made a number of mistakes. I went through the competitiveness issue earlier on, you know, I don't ... and that-----

Deputy Kieran O'Donnell: Did you abandon the export market?

Mr. Bertie Ahern: Sorry?

Deputy Kieran O'Donnell: Did you abandon-----

Chairman: I think you need to-----

Deputy Kieran O'Donnell: Sorry, yes.

Mr. Bertie Ahern: No, I ... we didn't abandon it. We still, actually it went back up in 2007, the exports. You know, it-----

Deputy Kieran O'Donnell: Not from 2000 onwards , it was-----

Mr. Bertie Ahern: No, it was ... no, I accepted that earlier on the competitiveness issue. But, I believe I was wrong not to reverse the decision that had been made by the rainbow in the ... in 1993 to stop the property tax. I went along with that. I had brought it in, I had taken the hit for it, I took the political hit. I was hammered in the media, particularly the business end of the media about that property tax. I should have stuck to my guns and when I came back in in 1997, I should have brought it in. It would have been a good hit back on keeping the whole thing down. And that ... there wasn't much support for it but I should have, having taken the hit, I should have politically stuck to it.

On the competitiveness issue, I have already stated and I ... and, clearly, in the later years of the increases that we had in public expenditure, we should have, if we had've for a minute thought that we could go down from 70,000 houses down to 7,000 or 8,000 houses, we should have put away more money. Because it wasn't a question of debt-to-GDP ratio. The debt was eliminated. But we should have put away more than the 1%. We should have, if you like, if I was doing it now, and I knew what was going to happen, what would you do? You would have kept expenditure tight, mightn't have put it into pension reserve fund but you would have had some rainy day fund, which the Germans did very cleverly after they did reunification and the-----

Deputy Kieran O'Donnell: Very finally, you have no regrets about the-----

Chairman: Sorry, now, Deputy-----

Deputy Kieran O'Donnell: It's the same thing. You have no regrets about the policies you pursued in the 2000s around the property sector?

Mr. Bertie Ahern: My ... our whole consideration was to try and get supply equal to demand so that the people who wanted a house in this country got a house. Have I regrets that prices went so high, that our banks weren't ... like, I have to say, Deputy, when I think about this and go through it, if the banks had been creating enough in capital for their exposure; we wouldn't be here at all. And that, I can't ... I don't want to say something I don't believe in and I don't want to be here in a year's time saying, "Ah, sure, I went along for handiness sake in saying that was a mistake", but it wasn't my job to create the capital ratio.

Chairman: And can I just round off one aspect of that and I propose we just take a five

minute comfort break then after which. Just one matter I just want to deal with in general with regards to Mr. Cowen's testimony and then just an item that comes back to your earlier comment there, Mr. Ahern. In a statement to the banking inquiry, Brian Cowen discussed the announcement of the restructuring of tax incentives to the end of 2005 stating:

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..

Would you interpret this remark as a criticism of your role in Government over the preceding years?

Mr. Bertie Ahern: No, I don't. I think the Minister wanted to bring an end to the incentives. He was right to bring an end. As we have said, it went too high. When it went over 50,000, the number of houses being built too high and anything that created ... that led to that had to be looked at. And one of the big issues that he believed was the property incentives.

Chairman: One of the monetary outcomes during that period was the cyclical taxes and how they rose and the graph that I have up there is actually from the Honohan report. And what you will see there is how cyclical taxes, by the late 1990s, were in around 15% or so, or just maybe a little bit above it. And by 2006 had rose to 30%. They had doubled in that period of time. So that would be the total tax take of corporation tax, capital gains tax, but in particularly it relates to stamp duties and other cyclical tax measures. Would you consider that to be a proportionate or disproportionate percentage of the tax take in terms of tax balance?

Mr. Bertie Ahern: Disproportionate. No doubt about it.

Chairman: Okay. So even in regards to your earlier comments that there was a banking crisis coming down the tracks, was there not also a fiscal crisis coming down the tracks? Because these were what might in layperson's terms be called consumption taxes, and as soon as the economy slowed down consumption would stop, and cyclical taxes would stop with it.

Mr. Bertie Ahern: Yes but, Chairman, nobody in government, and I, as Head of the Government, ever believed that 30% of the taxes was going to remain. Neither did I believe ... I think in 2012 that came down to 11%. As I said earlier on, the judgment was that we would have to correct somewhere from 55,000 to 88,000 which was the figure that everybody gave. We couldn't have controlled the situation of bringing it from 88,000 to 8,000 which is what happened, but that was never a consideration because we never believed we'd have to make that correction. Unfortunately, that correction had to be made ultimately.

Chairman: And that brings me back to the ... one of the earlier questions I asked you when we commenced this session today, when I demonstrated a table which showed an increase in public service allocations between 2000 and 2008 at a 141% in total increase in expenditure, which was precisely double the growth of GDP over the same period. So we had that expenditure running ahead of GDP, we had this massive cyclical tax thing, we had a difficulty in the banking section. But would you have a view that Ireland's crisis was not ultimately a banking crisis in isolation, that there was a cyclical tax crisis that was coming down the tracks, or not?

Mr. Bertie Ahern: Well, as we know now, there was, so it's no good denying that. But the position, Chairman, at the time, and I know your committee knew ... I've heard you several times saying you're anxious to know what the state of mind was at the time, and what the state

of mind is now. But if I could give you at the time: at the time was 30% of unsustainable taxes was too high, but the proportion of what we believed would be sustainable was something building about 30,000 ... 55,000 houses. And it was ... if you take it that roughly 1% per 10,000 houses, we were talking about an adjustment, on the budgetary side, of 3%, or maybe 3.5%, which we believed was totally sustainable, and that the employment effect would have put up employment up to 7%. And what I've said in my statement, not to dwell on it, but what the ESRI pointed out, where they saw the vulnerabilities, and they were quite critical, and a very good organisation, and their independence I accept and admire and worked under for many years, but they looked at what the period was by 2005 to 2010, and 2010 to 2015, and they were looking at even a less tough hit. So if you follow your own logic, Chairman, if I can respect-----

Chairman: But I am putting out questions.

Mr. Bertie Ahern: But if I can respectfully say, Chairman, if it wasn't for the international hit and the banks not creating the buffer against their own loans, we would not have been savaged, as regrettably we were.

Chairman: Okay, thank you. And I propose that we take a five-minute comfort break, and to return at 7.10 p.m. Is that agreed? Agreed. And as I've informed the witness earlier with regard to rules during the suspension, just to state that again. So I now propose we return at 7.10 p.m. Thank you.

Sitting suspended at 7.04 p.m. and resumed at 7.12 p.m.

Chairman: I propose we go back into public session again to conclude our engagement with Mr. Ahern today and, in doing so, I now invite Senator Sean Barrett. Senator, you have ten minutes.

Senator Sean D. Barrett: Thank you, Chairman, and welcome, Mr. Ahern. On page 55 of the core documents, Vol. 5, I am sure you recognise the quote anyway ... should you have sought out Morgan Kelly to discuss this analysis and you say:

I wish I had, I wish I had run into him at a match somewhere. ... I do acknowledge Morgan Kelly got it right more than [the] others.

Could I contrast that with a few pages earlier, on page 52, where you say:

I wasn't responsible for the Central Bank or ... the Financial Regulator. They're independent under the 1941 Act. I wasn't privy to what was going on in the boardrooms of the banks. There were plenty of very important people there. No bank director ever came to me to say that there were problems.

Didn't you need a Morgan Kelly to tell you that there were problems, the loan-to-value, the loan-to-deposits, credit growing at 20% or 30% a year when Germany was 4% in the same currency area, that you did need that kind of advice and you should have, as Taoiseach, taken on all the people there and said, "We cannot allow you to run this country over a precipice"?

Mr. Bertie Ahern: You are asking me should I have had more of that advice or-----

Senator Sean D. Barrett: I think that is implied yes, that he got it right more than the others.

Mr. Bertie Ahern: No, I accept that. There were a number of people that were making the

point that we had too much ... there was too much strong credit growth, we had rising indebtedness, we had rising house prices. He made that point and I have accepted that point and I think the Department of Finance, though they didn't agree with everything he said and there were arguments about whether he had taken a broad enough analysis of the situation but I mean, the fact is that he did get it fairly right.

Senator Sean D. Barrett: Because by contrast, the domestic standing group, which you mentioned in your presentation to us, it's really the policy insiders and by 2007, the damage was really done, wasn't it? So you need some way to get to the Taoiseach independent high-calibre economic advice.

Mr. Bertie Ahern: I think sometimes you might be getting too much of it coming at you from too many reports and I accept that. As I said in my statement, I get the National Competitiveness Council, you had Forfás, you have ESRI, you have the Central Bank, you have Growth and Stability Pact, you have IMF, you have the OECD, you have a number ... you have Moody's, you have all of these organisations are coming out with, if not annual reports bi-annual reports. So ... but is there a way that you can have a smaller independent group? I suppose the fiscal group is what's now perceived as an independent group to do that. I'd have to say, and I've accepted earlier on about the competitiveness issues and moving from the exports to domestic stimulus, that that didn't do us much good. The National Competitiveness Council did do some useful papers in that regard.

Senator Sean D. Barrett: But when houses go from two-and-a-half times average income to ten to 12 times average income, that's a huge loss of competitiveness that we had in all of that period.

Mr. Bertie Ahern: Yes, I mean, the ... I think it was ... was it a figure that they quadrupled over a 20-year period which was, I think, double what they would have done in the United States.

Senator Sean D. Barrett: In the same volume, Mr. Ahern, on page 26 again, there's how the housing policy ended up. It's a report by Maynooth; it'll come up on the screen if ... or I think you have the hard copies: "What the data reveal is a pattern of development that ran counter to what one would have expected or hoped for - those local authorities that had the most vacant stock in 2006, subsequently built the most new housing, now have the highest surpluses of stock and have the most land zoned for future use." So, a gross policy of housing, you know, had all those defects which that report from Maynooth, which is in your volume, show. Could we have targeted it better?

Mr. Bertie Ahern: I'm not too sure the experts from Maynooth are right. I mean, I wouldn't sign my name to their ... to the report. I don't accept that local authorities, just to get levies, property levies, started zoning houses all over the country. I wouldn't accuse local authorities of doing that, or members of local authorities of doing that. But, yes, I suppose the end result is that, for the next number of years, we have enough of ... the zoning of the land wasn't the problem, but, even in the height because there ... I think many of the reports had shown that there was sufficient zoned land around. What there wasn't was sufficient serviced land. As you recall, Senator, the amount of effort we had to put in in the early years, '97 to 2001, in getting the necessary infrastructure, not just transport infrastructure, but the North Fringe, which was responsible for zoning about 370 hectares of land in north County Dublin just to try to ... and in several other places as well. and there was a lot of capital expenditure in those years put in to service land that was actually zoned so that housing could be built. That's not a loss; as housing

resumes again, a lot of that infrastructure and the road network and all that is all in place now to allow that organised and sustainable development over the next decade.

Senator Sean D. Barrett: Could I ask, in relation to your previous profession of accounting, how did auditors of Irish banks miss so much? We had evidence here of banks being solvent in June 2008 and into Brian Cowen's office a few weeks later, looking for €64 billion. Do you think auditing standards in Ireland are high enough in banks?

Mr. Bertie Ahern: The only explanation that I can give is ... I mean, in the end of the day, a lot of this was about risk and they had to have been taking the banking figures that ... you know, right up until the end, Senator, the banks were, when they were being asked questions by the regulator, and I criticised the regulator earlier on, but when they were asked questions by the regulator, they were standing over their figures. They were saying, "These are net worth individuals. These individuals don't have difficulties", and, even when there was collateral changes between one bank and another, the banks were defending that. All's I can assume is that the auditors must have been accepting that the capital that the banks had said they put aside to cover those loans was adequate. As we all know, and you know in this committee better than anybody, they were far from that.

Senator Sean D. Barrett: We had cases where the regulator drew the attention of certain banks to their sectoral concentrations and the response was, "Yes, we're quite comfortable [that was the word used] with our sectoral concentrations", i.e. all in construction. I mean, what should happen in that case? Should those regulators get in touch with the Taoiseach and say that "We're trying to regulate this sector which is refusing to comply with what we regard as important-----

Mr. Bertie Ahern: Yes-----

Senator Sean D. Barrett: -----you know, that there's just too much sectoral concentration in construction."

Mr. Bertie Ahern: Well, I think we're ... if we're looking for the future situation, I being ... I tried today to give you how things were. I certainly wouldn't for a second defend how they should be. And your question is that ... is it correct that the regulators were fobbed off to the extent that they were, which is what your question is. And it shouldn't be ... I mean, but to do that, which I think the banks should pay for ... I mean, I think the banks should pay a levy on their profitability for evermore, based on the necessity of the banks being able to employ the experts that they require. I mean, if you take in these years or in the other years we're talking about, the profitability of the individual banks was massive. They were considered to be the most profitable banks in the European Union. And, still, in the regulatory system, which I didn't know - and, okay, people think you should know everything - but that there was only a handful of people regulating them and the auditors didn't have the ... well, then there has to be another system. There has to be a way where that information is given - either the regulator has far more power and has the power to be able to do it. But you can't continue on with the way it used to be.

Senator Sean D. Barrett: There was a public sector view, as you know, in the NTMA, that some of the banks were, in fact ... they wouldn't put their ... the pension fund into them because they had concerns about the solvency and yet it was Government policy to save those institutions afterwards.

Mr. Bertie Ahern: Yes, well, the NTMA, I think, were always - because they were protecting the ... what was the long-term pension money. - they tended to look externally, as you know, from their own figures ... they had to put the money outside but they wouldn't do it without the Minister giving them a approval to do that. And I can understand them taking that position.

Senator Sean D. Barrett: Thank you, Mr. Ahern.

Chairman: Thank you very much.

Senator Sean D. Barrett: Thank you, Chair.

Chairman: I'm now going to wrap things up with just one or two questions, and just some clarification, and, after which, I'll invite Deputy Doherty and Deputy Murphy and then any closing remarks you would wish to make yourself, Mr. Ahern, okay? Mr. Ahern, between 1998 and 2000, Mr. Peter Bacon recommended in his reports ... Dr. Bacon ... at the end of a certain property-related tax ... sorry, recommended in his reports an end to certain property-related tax incentives. In December 2001 you and your Finance Minister announced the unwinding of some of the implemented changes. This related, in particular, to the reduction of stamp duty and tax deductibility of interest for investors. Mr. Bacon, when he was before this committee, told us that he was not consulted before these measures were taken and maybe you can discuss with us this afternoon why he wasn't consulted and who was consulted with regard to these measures and these decisions being taken.

Mr. Bertie Ahern: Chairman, I think he said he didn't expect to be consulted, his job was to write the-----

Chairman: Yes.

Mr. Bertie Ahern: -----to write the reports. But it was a decision taken by the Minister for Finance. I was consulted. The ... I think Peter Bacon stated at the committee that they were done ... that the changes were done too soon and, you know, I wouldn't argue with him in that. I accept that. But the reason, Chairman, was that while the prices stabilised for period, the rent zoomed up. The rent of apartments and flats went up something like 85% in a relatively short period. And I recall well, because I live in the city, before the university students came back, there was an outcry by the students union, by the way, as there is now - they've posters up around the city again asking for landlords to give them ... if anyone wants to let their property to get on to them - because the rents were going through the roof. And a third ... people tend to think, okay, it was the immigrants, they can pay a bit higher rents because they're working or it was people in jobs, but a third of the people in private accommodation, in landlord accommodation are supplementary welfare cases - they are people on social welfare. So it wasn't some abstract thing that it didn't ... it didn't matter, it was the ... it was ... the people were suffering most from some of these changes were the poorest people in society. And I represented a lot of those poor people and I was, you know, very conscious that we were hammering ... because the supplementary welfare officers wouldn't give the increases and Joe Public, who was in rental accommodation, was being screwed. So ... like, when the model and the theory was ... and I'd a lot of regard for Peter Bacon ... might have said one thing, the effect of it was hammering people who were at the bottom and that's why we changed it.

Chairman: And I recall at the time ... I think the general figure was there was about €1 billion going into rent supplement at its peak, and one could put forward a proposition that the buy-to-let investor had a very, very preferential mortgage compared to the home buyer

because the interest rate rebate that they were getting were better than the home buyer. So the State, through one measure and another, was assisting the buy-to-let purchaser to purchase the property and was also putting €1 billion in the other side to help the person to actually rent the property. Would you have any comment on that?

Mr. Bertie Ahern: Yes. Well, I think you're right, but the wizards in the IMF and the OECD, by the way, say we shouldn't be building any social housing, we should be doing it all through buy-to-let properties and that that's the way we should be dealing with social housing, which I entirely disagree. But, yes, we were subsidising it and no doubt the taxpayer was subsidising it.

Chairman: Coming back to ... and at the same time, affordability, which was going up, and I'll come back to in a moment, but the ... if you look at the graph that's in front of you there, particularly the bottom one, residential house prices quarterly, and this refers to the root question that I was talking about, which is the unwinding of some of the implemented changes. If you look there at quarter ... it's quarter 1, 2001 to quarter 1, 2002. The ... this is the period in which the Bacon report measures are implemented and we see there was a significant increase in property prices and then it plateaus and even begins to drop somewhat over that annualised period. Then we see the removal of the measures and we see house prices escalating very, very rapidly right up until 2007, both in the blue line, which is the new house prices, and in the red line, which is in the second house price market ... coming back to our earlier discussion of today with regard to affordability. Given an examination of that graph, did the removal of those Bacon measures make house prices more unaffordable for people on average incomes? These are average house prices.

Mr. Bertie Ahern: I think it did, and I think Peter Bacon's point that we did it too quick ... but that did correspond with the dotcom slowdown as well, Chairman. But the reason ... the main reason was the increase in rents. I mean, that's why it was changed. I mean, I've seen somewhere that there was lobbies ... and there were lobbies maybe about the stamp duty but the rents astronomically increased in that period. What we're looking ... I've no problem with the graph and I accept that the graph ... but I'd like to see what the graph showing the rents.

Chairman: Okay. And if we ... and let's come back to the rents-----

Mr. Bertie Ahern: Yes.

Chairman: -----because the rents are very easy to understand because in the old days ... and you spoke about the traditional banking model that seemed to have went out the window, the traditional banking model was based upon somebody's income multiplied by a modest amount. If they're cohabiting there's another income, and that's done over a 20-year period. But the calculation for rents historically has also been about the ... 12 times the value of the property. So it would work ... there was a calculation process there, so if the price of a house went up, rent would go up as well as ... because if I was purchasing a house in the morning in the buy-to-let market, as a second-hand house, the valuation of that, usually, would be a multiple of an annual rent by 12. So if I was paying €10,000 a year in rent, I would multiply that by 12 and the house should be worth about €120,000. That was the old sort of model as well. So on that basis, because house prices were going up, it was inevitable that rent was going to go up because it was actually tied in with price.

Mr. Bertie Ahern: You miss my point. It's the period of stabilisation of the price is when the rent zoomed. So what happened was there was a direct transfer in that period from ... the

escalating price of the residential stopped, we had equilibrium for a while, but the rent zoomed and Joe Public who was in a rented accommodation, including a third of them who were on supplementary welfare allowance, were screwed and that's the fact.

Chairman: And the other fact, then, is that the laws of supply and demand should have kicked in, which wasn't the fact because housing production increased rapidly after that-----

Mr. Bertie Ahern: After that.

Chairman: And neither rents nor purchase became affordable.

Mr. Bertie Ahern: I accept that.

Chairman: Okay. I want to deal with the affordability issue, now, as we spoke about earlier and that's affordability of mortgage loans in terms of home buyers as opposed to buy-to-lets. It seemed that you related this to the ability to get a loan from the bank, as you referred to the discussion, to 100%, loan-to-values, net income calculation and also the extension of the maturities of mortgages and so forth. Were you at any time ever worried about people being able to get a loan and were you also worried about people actually being able to repay those loans? Because what we had was people on ... you take the ordinary industrial wage, the multiple of that person buying their home went up to ten times their income, and it was stretched out over a very, very long period. So was the affordability ever a concern?

Mr. Bertie Ahern: Yes, it was, Chairman, because maybe the affordability debate was always to the fore more than some of the other issues. But, as I said earlier on, in 1999 when the loan-to-value changed and there were a number of changes ... 100% only came 2005. But it went to 80%, a far more general 80%, as I think you mentioned, if not today, on another day. There was also the gross-to-net, which I think is not to the extent focused on as it should be because that made a huge difference in the amount of the mortgage that a person on the average industrial wage and their partner, whoever ... whatever circumstances they were in, were able to borrow. It gave a huge ... it was something like €140,000 more, which was an enormous amount of money. Like, if you were looking and, somebody goes into the mortgage person, and they've said, "No, you can't get an increase on your mortgage", and next month you come back and you can get €140,000 more and you're on the same income; that's what happened. That had a huge impact as well and I think when ... those few things coming together in '99, 2001, is what zoomed that graph up, up substantially.

Chairman: You spoke about your advice centres earlier and I'll give you an experience of mine where I was witnessing single parents on lone parent payments, with maybe family income supplement coming in, and besides the doctor and the nurse we spoke about earlier, the whole intervention of affordable housing had taken place. And, in Cork, at the peak, the affordable housing had gone up to €250,000. That was subsidised housing through the State. And mortgage approval had to be granted through three different institutions. And so somebody who was on a social housing, affordable housing list had to go through this very technical process before they'd even be considered for one of these. Given that people in that type of circumstance were being facilitated through an affordable home programme that was being run where subsidised housing was costing as much as €250,000 back at that date, was that ever a warning sign that there is something maybe very, very difficultly and fundamentally problematic here that would have to be addressed?

Mr. Bertie Ahern: Well, I think so much as ... as you know, part of the difficulty, not on the

affordable initiatives but on the social issues, that we probably weren't building as much houses as we used to and then we were putting the money, as you said earlier on, into the supplementary welfare scheme.

Chairman: But we had Part V and the-----

Mr. Bertie Ahern: We had Part V-----

Chairman: Which was 20% of houses. That was of new construction.

Mr. Bertie Ahern: It did some good but, as you know, we didn't get to the extent that we should. But there were some good swaps done. There were arrangements with local authorities and some developers that operated for people. People got loans but I think the whole affordable ... the kind of figures, Chairman, that we were endeavouring to get on affordable ... I think it was 15,000 was the max we were trying to get. I don't believe we ever got to that figure on looking at the various schemes, and there were a number of initiatives tried, both with local authorities and with the committee that was on for then ... I think Mr. Geraghty was chairing that committee on affordable housing. There were a number of schemes looked at to try to help that-----

Chairman: My question here is that affordable housing had reached €250,000 - I think it was even more expensive in Dublin but - in urban areas in the city, affordable housing was set up ... was constructed to put in place a tenant purchase programme for people on social housing lists. You had to be within a certain income group to qualify for it, if ... a nurse and a guard couldn't get onto the affordable housing scheme because of their incomes. And we were ... for people on low incomes, the scheme was actually operating on €250,000 a year. Was that not considered to be ... that there's something wrong here?

Mr. Bertie Ahern: Yes, well, it certainly wouldn't have been considered value for money, but if you look at what house prices were in city areas, not just Dublin ... it probably was not a high price.

Chairman: I just want to deal with two matters with regard to the banks ... Did you ever meet the Finance Minister after he had his meetings with the Governor of the Central Bank to discuss current issues and, in particular, the contents of the financial stability reports?

Mr. Bertie Ahern: I would be ... as Taoiseach, I met the Minister of Finance several times a week, so he would always be updating you and briefing you on issues that happened and meetings that happened.

Chairman: Okay. Prior to ... just before the ... end of your tenure as Toaiseach ... how many briefings did you get about the situation with Anglo before your tenure came to an end?

Mr. Bertie Ahern: Very little.

Chairman: Okay. How serious was the advice?

Mr. Bertie Ahern: Other than the one I mentioned to you about the Minister coming to see me.

Chairman: Okay, did you talk about the Financial Regulator or the Governor about that?

Mr. Bertie Ahern: No, I never had a discussion with the Financial Regulator.

Chairman: Why not?

Mr. Bertie Ahern: He never ... I had a practice which continued on, that the Central Bank Governor would meet me. I would go to the Central Bank, he would come to my office but there was no such arrangement ever with the regulator.

Chairman: Okay, thank you. Deputy Doherty.

Deputy Pearse Doherty: Go raibh mhaith agat. Mr. Ahern, you said ... you were critical of the Financial Regulator and you also said that you'd be damned to take responsibility for something that wasn't your responsibility. And it's been put to you by Deputy Higgins that you sponsored or were aware or promoted light-touch regulation. Given that statement, how can you wash your hands of, or how can you not take responsibility for the type of regulation that was happening in the Financial Regulator's office?

Mr. Bertie Ahern: Well, I'll repeat what I said earlier on. I don't know where you get the notion that the Better Regulation White Paper, had anything to do with light-touch. It was not light-touch; it was good regulation. It was to ... based on an OECD model to improve regulation. I had done, I think, considerably good work on the statute law revision of the Oireachtas on both legislation pre-1922 and the statutory instruments, where we updated the entire Statute Book and legislative book going way back to ... hundreds of years. And as part of that initiative, we wanted to get to a situation where the easy option wasn't always taken, that a statutory instrument or regulation would be the first thing that was looked at. And there were five principles or six principles set out in that White Paper. But it was not light-touch, it should not have been considered light-touch; it was better regulation.

Deputy Pearse Doherty: Mr. Ahern, you travelled to America in 2007, on 14 March ... at a breakfast meeting with the Financial Services Industry, over in New York. And at that, you were accompanied by the Financial Regulator, and in your address to them, you say, "International benchmarking studies show that Ireland is very lightly regulated compared to most of our European colleagues." You were telling the financial services sector in New York to come and invest in Ireland, and as I quote, you were saying that Ireland is "very lightly regulated."

Mr. Bertie Ahern: Well, I don't ... in that sense, you're, you're trying to put "lightly regulated" as something that's bad. The whole ... I'll tell you, Deputy, I remember as Minister of Finance, when the Bundesbank finance committee came to this country because this country's financial services centre, which was only in its infancy, was being talked down by others, mainly Luxembourg, which ... I don't criticise them for it because they saw this was a new opposition. And they came here and were amazed to find out that it wasn't a brass plate operation, that we had good regulation, that we were well-regulated. And one of the reasons that the financial services industry in this country has been a success, that it has billions upon billions under fund management and that has been one of the great success stories of the last quarter of a century in this country is because it's seen internationally as a well-regulated, not light regulated, well-----

Deputy Pearse Doherty: In your own words you were advocating that Ireland was a light touch, sorry, "very lightly regulated compared to most of our European colleagues and the burden on business of regulation tended to be lower than in many other EU member states." So do you accept that you were aware that the Financial Regulator who accompanied you there was pursuing light-touch regulation with the banks? And if you were aware then how can you say that you'd be damned to take responsibility that wasn't your responsibility?

Mr. Bertie Ahern: Because we're talking about two entirely different things. We're talking about better regulation so that we're seen as a modern country, to be able to manage the funds

of something like 100 banks worldwide as we have done successfully here even in the downturn. Our banks here ... our foreign banks who work in the IFSC, that employ 30,000 or 40,000 people are well regulated and that isn't about light touch, they are well regulated ... and they're seen internationally to do that. But we had to, Deputy, work hard for a quarter of a century as I did, as the Taoiseach before me did to win that reputation, and as a former Taoiseach, is there in the financial service industry today doing a good job on it. So I would almost resent, Deputy, if I can say it respectfully to you, the idea that our international financial services industry is considered to be light-touch in the way that you put it.

Deputy Pearse Doherty: Sorry you put it.

Mr. Bertie Ahern: Well in the way you put it.

Deputy Pearse Doherty: I'm only quoting you Mr. Ahern; they are not my words.

Mr. Bertie Ahern: Well; I-----

Deputy Pearse Doherty: I'll move along anyway. If I can ask you, we've seen the graphs in terms of the explosion of credit into the market. And you yourself talked about that the commercial property was where the madness really took place. Mr. Ahern, your Government introduced the Asset Covered Securities (Amendment) Act 2007. It's reported that you were lobbied by the financial institutions, and the Minister for Finance was lobbied by Anglo Irish Bank. This is all on the public record and it was introduced in 2007. It was introduced in the statement in the Dáil it says that the banks were relying in the past in relation to deposits which is no longer available. What this Act did was allow for commercial mortgages to be rolled up into a bond and new funding to be secured on the basis of that to allow these banks to release more credit into the Irish market. Now this was in March 2007 at the peak, or close to the peak, of credit flow. Do you take any responsibility for introducing that Act which encouraged more credit into an overheated system at that point in time?

Mr. Bertie Ahern: Well I ... as I said earlier on, the fact that the whole commercial market ... the whole commercial industry grew to the extent that it did and the amount of money that it went in was a matter totally for the banks and the regulator. I didn't deal with that legislation. I heard the Minister answer it and I think the Minister gave the reasons why that was, so I don't want to add anything to what he said.

Deputy Pearse Doherty: Mr. Ahern, you were the Taoiseach of the country-----

Mr. Bertie Ahern: Yes but I wasn't the Minister for Finance.

Deputy Pearse Doherty: -----doesn't all legislation have to be ... get a Cabinet approval?

Mr. Bertie Ahern: Definitely.

Deputy Pearse Doherty: Okay so, do you accept collective responsibility?

Mr. Bertie Ahern: Of course.

Deputy Pearse Doherty: Were you aware that this allowed for banks like Anglo Irish Bank which was a commercial ... in the main, commercial property bank, to actually secure more funding from the wholesale markets to release into the Irish and other markets? Were you aware that that ... you were lobbied by the financial sector. Were you aware that this was the intent behind this legislation, as a former Minister for Finance also that's familiar with many of

these issues?

Mr. Bertie Ahern: I am familiar with those issues but I heard the reply the Minister gave. It's ... Anglo, as I said earlier on, Anglo was 40% of its activity within the country, 40% was outside of the country. I don't know the figures that actually led to them being able to get more cheap money or get more wholesale money on the wholesale market. I don't know if that was the outcome so I don't want to answer that.

Deputy Pearse Doherty: But whether it did or not-----

Chairman: Hurry now Deputy-----

Deputy Pearse Doherty: This is finally, whether it did or not, the Government's intention, through this legislation, to allow for commercial mortgages to be included in covered assets securities, was to allow for banks such as Anglo, Bank of Ireland, Depfa bank, banks who all got into trouble, to access more wholesale money on the wholesale markets at the peak of credit into the Irish market. Do you take responsibility for that?

Mr. Bertie Ahern: Well, I take responsibility for the legislation that was passed, but I'm not going to say, because I don't know, if that was the outcome of that, because it didn't seem to me to be any problem in Anglo being able to get cheap money, anyway. So I don't know why that would have helped them to do so.

Chairman: Deputy Murphy.

Deputy Eoghan Murphy: Thank you, Mr. Ahern. I'd like to stay within that area of regulation, if I may. We've heard from Mr. Patterson, who was the chairperson of the Financial Regulator, that in the 1990s, the sectoral concentration limits in the banks were relaxed to attract one large foreign bank into the country and as a result the implication was they were relaxed for all the banks already working here. Do you have any familiarity with that or do you remember that?

Mr. Bertie Ahern: I don't.

Deputy Eoghan Murphy: Okay. Just to come back to something I raised earlier, in the *Financial Times*, it wasn't an interview that you gave in October 2009. You were giving interviews, I think, on the radio here and the *Financial Times* reported that you said that the decision to create a new Financial Regulator was one of the main reasons for the collapse of the Irish banking sector. Did you say this?

Mr. Bertie Ahern: No, I don't ... I tried to check, actually, I tried to check before the hearing, where was the source of that, the source of that interview and then I wasn't able to get that. But if I can tell you, I can answer your question in this way: there was a lot of fairly heated discussion and meetings that I chaired about how we would implement the '99 report, and how we would get a compromise, and I know you discussed last night, of the McCarthy compromise. But I would have been very well on the side of "leave well enough alone", because there was concern in the Central Bank but at the same time, there was an impelling argument because of the difficulties that had come out of the DIRT report that we should make those changes. There was a compromise, and I accepted the compromise, so ... I don't intend to say that to you it was the cause of the issue. I don't believe I said that, and if I did say that, that's not correct.

Deputy Eoghan Murphy: Do you take responsibility for the structure of regulation that

you brought in?

Mr. Bertie Ahern: The negotiations that took place that led to the compromise, I chaired those discussions so I was responsible.

Deputy Eoghan Murphy: Okay. And why did the 2003 Act require the Financial Regulator to also market and promote the IFSC abroad?

Mr. Bertie Ahern: Well, he'd been working on that, previously. I don't see anything wrong with that. I know there's been an issue made about this, was that in some way tied his hands. I don't really see that. We're a country that hasn't got huge resources in the administrative system for having separate agencies and separate organisations, and if people can double up in their promotion, of it, the Central Bank, working together. In the early years, all the people that were in the Clearing House Group, the Central Bank was there, the regulator was there, Revenue were there, Government Departments were there, I don't really think that that created any weaknesses in the system. I know there's been some changes now, and from what I can hear, the changes don't add up to a lot in so far as the system works very much the same. They have two different groups, one group meets now and then another group meets separately, it, the changes aren't substantive.

Deputy Eoghan Murphy: Just finally, then, you would meet with the Financial Regulator to discuss the promotion of the IFSC?

Mr. Bertie Ahern: Certainly at the clearing house group functions that I'd go to, the regulator would be there.

Deputy Eoghan Murphy: But you never at any point discussed prudential regulation of the banking system in Ireland?

Mr. Bertie Ahern: No.

Deputy Eoghan Murphy: At any point?

Mr. Bertie Ahern: Never.

Deputy Eoghan Murphy: It never crossed your mind to approach him yourself, even though he hadn't approached you?

Mr. Bertie Ahern: No, because the old system had prevailed, that the person who was the face of that end was the Governor of the Central Bank, and I did go to the Central Bank person and the Central Bank Governor did come to me, we had regular meetings.

Deputy Eoghan Murphy: Okay, thank you. Thank you, Chair.

Chairman: Just finally, one more item, Mr. Ahern, and I can then invite you to wrap up. Did you speak to Mr. Quinn, Seán Quinn, after Mr. Cowen told you about the contract for differences?

Mr. Bertie Ahern: Did I ever speak to Seán Quinn?

Chairman: After Mr. Cowen informed you about the contract for differences.

Mr. Bertie Ahern: But he didn't ... Mr. Cowen never informed me of that. But I would have spoken ... I would have spoken to the Quinns and ... I'm a Cumann Lúthchleas Gael sup-

porter, so I've met the Quinns on many occasions.

Chairman: I just need clarification there because the transcripts might need to be corrected if that's inaccurate ... Senator-----

Senator Susan O'Keeffe: Sorry, Mr. Ahern, when I asked you earlier about Mr. Cowen, and you said he'd come to your house on his way back from Vietnam or Malaysia or whatever it was, he'd had the call at that point about the contracts of difference and the share price and the concern about Anglo and Mr. Quinn's contracts for difference and you said, yes, he'd come to your house and you'd a conversation, so-----

Mr. Bertie Ahern: Sorry, I want to clarify it. I have no recollection whatever that he spoke to me about the contracts for difference. No recollection whatever. He did ... we did speak about the share price.

Senator Susan O'Keeffe: So he came... he came to your house to talk about-----

Mr. Bertie Ahern: Well, this had been after the St. Patrick's Day collapse of the shares and what was going on. We spoke about that but we never got into ... about Quinn ... about Quinn's involvement in anything to do with that share price collapse.

Senator Susan O'Keeffe: So you never knew about that?

Mr. Bertie Ahern: Not until ... not until much later ... until much later on. And I believe I would have remembered it because I know the Quinns from other ... from sporting connections.

Senator Susan O'Keeffe: But that was the reason the share price had collapsed-----

Chairman: Sorry there, Senator.

Senator Susan O'Keeffe: Sorry, Chair.

Mr. Bertie Ahern: It wasn't only that, as you know. It was because the foreign banks or the banks internationally were looking very closely at Anglo ... that, for one reason ... but I don't believe I was ever told about that.

Chairman: Okay, thank you very much, Mr. Ahern. I'm going to invite you to make any closing remarks or comments or further remarks that you might wish to add, if you-----

Mr. Bertie Ahern: Only one, Chairman, watching your issues ... in all the pressures from the various organisations that used to speak to us - from IMF, ESRI and everybody else - in all the good times, were that down the road we would have a major difficulty with providing our resources and changing our budgetary system for the aging of Irish society. I hope the issue isn't lost.

Chairman: Okay. Right, thank you very much. That's it ... all right. With that said, I'd like to thank Mr. Ahern for his participation today and for his engagement with the inquiry. The witness is now excused and I propose that we adjourn until 4.30 p.m. on Tuesday, 21 July. Is that agreed? Agreed.

The joint committee adjourned at 7.53 p.m. until 4.30 p.m. on Tuesday, 21 July 2015.