HOUSES OF THE OIREACHTAS

Volume 2 | **No. 49 Morning No. 50 Afternoon**

AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉIREACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 22 Iúil 2015

Wednesday, 22 July 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

Deputy Pearse Doherty,	Senator Sean D. Barrett,
Deputy Joe Higgins,	Senator Michael D'Arcy,
Deputy Michael McGrath,	Senator Marc MacSharry,
Deputy Eoghan Murphy,	Senator Susan O'Keeffe.
Deputy Kieran O'Donnell,	
Deputy John Paul Phelan,	

DEPUTY CIARÁN LYNCH IN THE CHAIR.

Nexus Phase

Central Bank-Financial Regulator - Mr. David Begg and Mr. John Dunne

Chairman: As we have a quorum, the Committee of Inquiry into the Banking Crisis is now in public session and can I ask members and those in the public Gallery to please ensure that their mobile devices are switched off. Today we have a number of sessions and this morning's, in session No. 1, is a public hearing with Mr. David Begg, former general secretary of ICTU and non-executive director of the Central Bank and CBFSAI, and Mr. John Dunne, director general IBEC and non-executive director general bank of ... sorry, non-executive director general bank and IFSRA. In doing so, I would like to welcome everybody to the public hearing of the Joint Committee of Inquiry into the Banking Crisis today. At this morning's hearing, our witnesses are Mr. David Begg, former general secretary of ICTU and non-executive director of the Central Bank, and Mr. John Dunne, former director general of IBEC and non-executive director, Central Bank and IFSRA.

This session will focus on our witnesses' respective roles with the Irish Congress of Trade Unions and the ... and IBEC, and as non-executive directors of the Central Bank and Financial Regulator. Mr. David Begg was general secretary, Irish Congress of Trade Unions, from 2001 to 2015. He was also a non-executive director of the Central Bank from 1995 to 2010. Mr. John Dunne was director general of IBEC from 1993 to 2000, and chairman of the IDA from 2000 to 2010. He was also a non-executive director of the Central Bank and IFSRA from 2003 to 2010. Mr. Begg and Mr. Dunne, you're both welcome before the committee this morning.

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 so do, you are entitled thereafter only to a qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. The utmost caution should be taken not to prejudice those proceedings.

In addition, there are particular obligations of professional secrecy on officers of the Central Bank in respect of confidential information they've come across in the course of their duties. This stems from European and Irish law, including section 33AK of the Central Bank Act 1942. The banking inquiry also has obligations of professional secrecy in terms of some of the information which has been provided to it by the Central Bank. These obligations have been taken account by the committee and will affect the questions asked and the answers which can be lawfully given in today's proceedings. In particular, it will mean that some information will be dealt with in a summary or aggregate basis only, such that individual institutions will not be identifiable.

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, and 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 witnesses have been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to both Mr. Begg and Mr. Dunne. Thank you.

The following witnesses were sworn in by the Clerk to the Committee:

Mr. David Begg, former General Secretary ICTU and Non-Executive Director Central Bank and CBFSAI.

Mr. John Dunne, Director General IBEC and former Non-Executive Director Central Bank and IFSRA.

Chairman: Once again, welcome before the committee this morning, Mr. Begg and Dr. Dunne, and I believe Mr. Begg will verbally make his opening remarks for us. So, Mr. Begg, please.

Mr. David Begg: Well, thanks very much, Mr. Chairman and members of the committee. I understand that I've been asked to give evidence to the inquiry by virtue of my roles as non-executive director of the Central Bank and as General Secretary of the Irish Congress of Trade Unions. As you know, Chairman, the regulatory regime was altered radically as a result of the Central Bank and Financial Services Authority of Ireland Act 2003, which amended the original Central Bank Act of 1942. It established the Irish Financial Services Regulatory Authority as an autonomous entity and it was given responsibility for prudential regulation. The powers formerly held by the Central Bank for the regulation and supervision of the financial institutions were transferred to the regulatory authority under section 33C of the new Act. The Central Bank was left with residual responsibility for stability of the financial system and various functions related to the European system of central banks. Henceforth, the regulator was accountable to the Oireachtas and communicated directly with the Department of Finance. The regulator also published a separate annual report.

The Central Bank was opposed to the changes, as they would essentially interdict the line of sight between financial stability and the soundness of the banks. My personal view supported this evaluation and I also felt that the change was, to some extent at least, motivated by ideological considerations. I was involved with the Governor and other board members in making representations to the Minister for Finance about it. And, clearly, the 2008 crisis exposed the institutional flaws in this structure and it was reversed, as you know. With the enactment of the Central Bank and Financial Services Authority of Ireland Act in 2003, I was reappointed to the board of the Central Bank but not to the authority. Thus, I had no further involvement in supervision or regulation of the banks.

This change coincided with the advent of EMU, the financialisation of the global economy, a sea change in the volumes of financial transactions and the emergence of shadow banking. One consequence of the liberalisation of capital markets was that large financial flows looking for investment outlets contributed to keeping real interest rates low worldwide. The abundance of liquidity and low interest rates encouraged financial institutions and asset holders to try to increase the rate of return on their portfolios by increased leverage at the cost of higher risks.

The global financial crisis emanated from the conjunction of widespread financial fragility and a lopsided globalisation process proceeding rapidly amidst large financial imbalances. A principles-based regulatory system was unsuitable for these circumstances, and the problem was compounded in the Irish case by competitive pressures associated with the presence of foreign banks regulated from outside the jurisdiction and also a remit to promote the financial services industry. In a sense, it was like trying to control a blaze with a mixture of both water and oil.

It is manifestly the case now that supervision was neither effective nor appropriate but principle-based or light-touch regulation was not exclusively an Irish phenomenon. It was derived from the ideas governing regulation generally in Europe and, indeed, internationally. Almost certainly, the regulator subscribed to those ideas but did not originate them. It is worth recalling that, in 2007, the IMF ranked Ireland's regulatory system highest in a study of accountability and independence in 32 countries. The truth is that, notwithstanding the shortcomings of the Irish approach, regulatory policy was located in an international context that was deeply flawed.

The problem of assuming that self-interest – Adam Smith's invisible hand – would make people do the right thing was that it wasn't actually correct. This is the flaw to which Alan Greenspan referred when he recanted his views about efficient markets before a US Congress committee in October of 2008. He accepted that the pursuit of self-interest, however beneficial in the economy as a whole, does not necessarily lead to financial stability. Unfortunately, Greenspan's conversion came too late. Regulators elsewhere who followed the same set of beliefs had, for too long, taken a benign view of the banks and the risks they were taking. In Ireland's case, this was reflected back to the assessments of macroeconomic stability by the Central Bank. Financial stability reports did identify major vulnerabilities building up in the financial system leading to credit growth and indebtedness and house prices increases and increasing repayment burdens to the household sector, but these were located in a context where the banks were assessed to be generally sound, usually in accordance with the Basel II directive, which has subsequently found to be fairly flawed.

These assessments were also made in the context of the eurozone Stability and Growth Pact. The Stability and Growth Pact failed in a number of ways to prevent deficit and debt, both public and private, problems arising within the euro area. It was overly focused on current budget balances and not enough on the sustainability of member states' public finances or underlying economic conditions. In the case of Ireland and Spain, the criteria specified in the pact were consistently met even though the property markets were booming. It is a matter of record also that neither the IMF nor the OECD were any more prescient. As recently as 2006, the IMF financial assessment programme concluded in relation to Ireland that "financial soundness and market indicators are generally very strong". In the years when the crisis was incubating all the international agencies - the IMF, the OECD and the ECB - took a positive view of the performance of the Irish economy. Earlier, in or around 2003, the European Commission disagreed with the Minister for Finance about budgetary policy but their case was undermined by the fact that Ireland was fully compliant with the Stability and Growth Pact while Germany and France were not. In summary, the likelihood of a gradual adjustment dominated official thinking. The soft landing hypothesis might have been possible up until the Lehman Brothers collapse but not afterwards. We were seriously exposed in the banking sector and we didn't know it. The risks to the economy were identified in the financial stability reports but they were qualified by assurances about the fundamental strength of the banks which were wrong.

Chairman, an earlier witness has told the inquiry that pre-crisis regulation was conducted within the paradigm of the great moderation. The Great Moderation described the long period of macroeconomic calm which predated the crisis. It held that, through policy alone, central banks had managed to create stable conditions of strong growth and low inflation. The great moderation was constructed on three pillars, namely: first of all, the disinflationary influence of cheap Chinese manufactured exports; secondly, a cheap credit model; and, thirdly, the change in the balance of power between capital and labour consequent upon the growth of the global labour force by about 1.5 billion people following the demise of the Soviet Union and the decision of China to become capitalist by decree. The thinking was that cheaper goods would increase purchasing power. The decline in labour's share of national income due to the weakened collective bargaining position would exert a downward pressure on inflation and could be compensated for by the ready availability of cheap credit.

This paradigm was opposed by European and Irish trade union movement, which broadly remained committed to social, democratic ideas in politics and neo-Keynesian ideas in economics. It was only to be expected that these competing paradigms would cause a degree of creative tension between me and some colleagues on the Central Bank board from time to time. But by 2004 it became clear to me, as general secretary of congress, that the economy was heading in the wrong direction. Our pre-budget submission of that year called for the removal of all property-based tax incentives. By the following year, 2005, our pre-budget submission voiced concern about overheating in the economy in the following terms, "Future economic policy should consider focusing on optimising economic growth rather than continuing the relentless pursuit of growth for growth's sake which has both economic and social down sides." In May 2005, congress made a detailed submission to the Department of Finance, arguing the case for the abolition of property tax incentive scheme. And this theme of sustainable growth was covered in a speech I made to a social policy conference in UCD in October 2005, which I've actually furnished to you with the documents, Chairman. It was a theme re-echoed in up to ten speeches and newspaper articles between 2005 and 2008. It informed my contributions to the debates in the National Economic and Social Council and, indeed, the Central Bank and it was also the subject of representations made directly to the Minister for Finance at the time.

Mr. Chairman, you wrote to me on 26 May advising that a witness had named me in his evidence and I assume this relates to the following passage in his statement. The statement was:

> In fact, I should say that one member of the Board did have grave doubts about what was happening; his words ring in my ears to the effect that 'it was all a house of cards and would end in tears.' However, his views appear not to have had any impact on policy-making in the Bank.

Now, frankly, Chairman, I can't actually remember precisely that ... whether I made that statement or not, but I can confirm that I did alert the board to what I saw happening in the real economy. I argued that what was happening in the construction sector was unsustainable because Irish people were borrowing to invest in buy-to-let houses built by immigrants who were then renting the same houses and it didn't take a genius to work out that a vicious circle with a huge vulnerability was being created.

I wish to turn now to the question of social partnership because the booklet of core documents sent to me contains a lengthy extract from the 2004 IMF review in respect of which I have submitted a supplementary opening statement. I found it difficult to identify any causal relationship between social partnership and the banking crisis. It seems to me that any adverse impact social partnership might have could only be in relation to fiscal policy. The fact is that the Exchequer was in surplus for the five years preceding the crisis and Ireland's gross debt-to-GDP ratio was less than 25%, one of the lowest in the OECD area. Ireland did not have a fiscal crisis up to that point; it had a banking crisis. In so far as there is any link between social partnership and the 2008 crisis, it is a mitigating one. According to Fritz Scharpf, who is the director of the Max Planck Institute for the Study of Societies in Cologne, the peripheral economies found no effective way to counteract domestic booms and were driven by the cheap money effect of uniform nominal and divergent real interest rates. But he acknowledges that both Spain and Ireland did try to use the instruments of macroeconomic policy that were still available nationally, including social pacts to restrain the boom; it's just that they were insufficient.

Social partnership sometimes seem as a domestic Irish phenomenon but this is not so. In 1985 an American academic, Peter Katzenstein, in a seminal work on industrial policy in the small open economies of Europe, attributed their success to systems of democratic corporatism. Democratic corporatism is built on three pillars: a strong situation of peak organisations of both unions and employers, an ideology of social partnership and, thirdly then, a constant process of bargaining. The small open economies of northern Europe that Katzenstein studied, essentially the Nordic countries excluding Finland and the Netherlands, realised that the cost of adjustment to international market forces could not be exported, as might be the case with a larger country. You had to be internalised and the only way to manage the situation was to combine openness to trade with flexibility and high levels of social protection. Internal disputes were an indulgence that could not be afforded. The trade unions in Ireland were attracted to this approach in 1987 because it seemed like a workable alternative to the zero-sum game that industrial relations in Britain had become. By history and culture, the Irish trade union movement is closely linked with Britain. While the overall assessment of the IMF paper is positive, it is a fact that over the 22 years of its existence, some misconceptions have arisen from time to time about how social partnership operated. Foremost amongst these, and it is mentioned in the IMF paper too, is that it undermines the powers of the Oireachtas. In my experience, social partnership only ever subsisted within the space ceded to it by Government and this is especially true where coalition partners in the Government had negotiated a programme. There is no evidence that this has been a problem in the other European countries where social partnership is the norm. Where fiscal issues arose, no Government has ever made a specific commitment outside of the budgetary process.

With regard to competitiveness generally, an ESRI paper, McGuinness *et al*., 2010, found in a survey of 6,500 firms that social partnership agreements enhanced the country's competitiveness. In particular, they stated "This result suggests that there have been large gains, in terms of competitiveness, to [multinational companies] that locate in Ireland" and this actually was the experience of the ICT sector in Finland as well. It is worth recalling too that the convergence criteria required for membership of EMU were managed within the social partnership process. Not alone that, but the wage terms of the various agreements held, even where the economy was growing at rates exceeding 10% in circumstances of extremely tight labour markets and where labour's share of national income fell from 65% in 1990 to 56% in 2009. The 2004 IMF paper advocates wage flexibility, short duration agreements and the incorporation of social partnership within a medium-term fiscal framework. Now most of this was taken on board subsequently. It is the case that a sophisticated system for dealing with employer inability to pay claim .... to pay ... inability to pay claims was dealt into the ... was built into the process, that worked by way of a panel of accounting experts, appointed by the Labour Relations Commission, which could be drawn upon by the Labour Court to assess the financial health of a firm claiming to be in difficulty. And this operated, I think, in a broadly satisfactory manner.

The last of the agreements, Towards 2015, was a ten-year framework agreement with provisions for pay reviews on a two-yearly cycle, thus detaching the process from fiscal policy. The other issue of concern raised in the IMF paper is the linking of tax concessions to pay agreements in the longer terms. And, as it happens, I agree with the IMF on this point, but, perhaps, for different reasons. When I became General Secretary of Congress in 2001, I started shifting away from the wage-tax trade offs and towards pay claims based on inflation and productivity. The reason is that I wanted to try to get closer to the Nordic model where universally available, high-quality public services like, for example, child care are part of the social wage. Having a high level of public service provision is crucial for low to middle income earners. Wage activity alone will not create conditions of equality, or anything like it, for this cohort of the population. Quality public services cannot be sustained by low levels of taxation.

Refined down to its core, the essential purpose of social partnership was to settle the distributional issues leaving Government the freedom to get on with the business of growing the economy. My personal conviction is that it is not possible to successfully manage a small open economy without embedded institutions for managing distributional conflict. Now, I think the truth of this is implicitly recognised in the recent report of the five EU presidents - that's Juncker, Dijsselbloem, Tusk, Draghi and Schulz - setting out a plan for strengthening EMU, published on 1 July. It suggests that a common template for national competitiveness authorities to guide wage negotiations and to restrain wage divergence throughout the eurozone.

So, Chairman, we are now in our eighth year of wage restraint. I cannot see that lasting indefinitely. A combination of pent up wage pressures, competition between unions, free collective bargaining and a tightening labour market suggest to me that the kind of co-ordination proposed by the five presidents will be challenging outside of a framework allowing some harmonisation of social wage issues in addition to pay.

In terms of the cost of the crisis, the most significant learning for me out of this experience relates to how EMU actually worked in practice. I did not expect that, in the event of an exogenous shock, and absent the facility to devalue the currency, that the whole burden of adjustment would fall on labour markets. The Finns were better prepared as a labour movement than we were. They used their collective agreement to negotiate buffer funds to cushion the impact of adjustment but then again such funds might have been raided to bail out the banks as the National Pensions Reserve Fund was raided.

Congress opposed austerity. We feared it would lead to deflation and a Japanese-style slump. We knew that fiscal consolidation would have to happen but we wanted it to be spread over a longer timescale, to 2017, in fact, and back-loaded, not front-loaded, to try to keep up domestic demand and let growth do some of the heavy lifting of adjustment. We also wanted the consolidation to be more focused on tax measures than public service cuts and we campaigned for this approach under the banner, the better fairer way. But would this have been better? Well, Chairman, we really ... we don't know what the counter-factual is.

During the period when Ireland was a programme country, my colleagues and I met quarterly with the ECB-IMF-EU troika. I have to say it was a dispiriting experience and utterly valueless, in my view. My impression of the troika was one of an uncaring technocracy of neoliberal zealots devoid of empathy. I exclude the IMF from this description. They were more reasonable, which was a surprise to me because I had first-hand experience of IMF structural adjustment programmes in the developing world during the 1990s but we were able to establish a useful separate dialogue relationship with the IMF.

It is clear to me also that there is no social institution to balance the independence and power of the ECB. An institution with the sole remit of price stability is not concerned with 26 million people out of work. The remit of the ECB should be changed to reflect the same range of social and economic responsibilities as the Federal Reserve Board in the United States is.

The so-called Great Moderation, upon which so many incorrect assumptions about markets were based, turned out to be a chimera. In his seminal work, The General Theory, Keynes wrote about the differences between risk and uncertainty. Risk can be quantified and therefore mitigated - uncertainty cannot be.

Chairman: Mr Begg, we are over time.

Mr. David Begg: I'll just finish the last sentence, Chairman.

Chairman: Thank you very much.

Mr. David Begg: Regulation in future must be aimed at minimising risk in the knowledge that uncertainty will always be with us. My apologies for taking so long.

Chairman: Okay, thank you. Mr Dunne.

Mr. John Dunne: May I begin by thanking you, Chairman and members, for giving me the opportunity to contribute to your inquiry. By way of introduction, I referenced my period of office as director general of the Federation of Irish Employers from 1988 and as the first director general of IBEC in 1992. I retired from IBEC in 2000. At the beginning of 2000, I was appointed to the board of the IDA and subsequently in June to the position of chairman. I was reappointed chairman in 2005 and retired in 2010. I believe that my role within IBEC was a significant factor in my being asked to join the board of the Irish Financial Services Regulatory Authority and subsequently of the Central Bank. My CV did not include any specific banking or financial experience but the challenges and successful outcomes of the creation of IBEC were, I believe, viewed as relevant and useful.

The committee will note my retirement from IBEC in 2000. I was appointed to the board of the Financial Regulator and the Central Bank as a non-executive director in 2003 and am therefore unable to comment, from an IBEC perspective, on any of the issues raised, other than social partnership to 2000, in the committee's terms of reference for my appearance before it. I confirm that I advised the committee secretariat of the position immediately on my receipt of the committee's request for my participation in its work.

Initially, I wish to make a number of general points. Firstly, I have no interest in seeking to apportion responsibility and-or blame between the bank and the regulator. Secondly, and in view of the comments made by another witness to the committee, I wish to assure members that I have never had any political affiliations and have acted completely independently in my participation in various public sector organisations. Thirdly, I have never had any connection with banking or financial institutions or anything to do with property interests. And, fourthly, I did not on any occasion discuss the business of the IDA within the CBSIA or *vice versa* other than to note some areas of overlapping interest.

I believe it's relevant to outline some of the issues which impacted on the work of the new organisation. First of all, I believe there was a general consensus that emerged amongst authority members that the construct was flawed. The regulator was set up as an independent entity, but, in certain key respects, had an umbilical cord back to the Central Bank. It was housed in the bank; it had key services, notably HR and IT, provided to it by the bank; its remuneration were controlled by those of the bank; its budget was the subject of consultation with the bank and required the approval of the Minister of Finance. Cost pressures arose from the operation of the levy which was shared 50% between the Central Bank and the industry and the staff of the regulator were mainly drawn from the Central Bank. In these circumstances, the achievement of real operational independence was a major task. From the bank's point of view, the main change was a loss of the direct contact in operational areas with financial institutions and its dependence on the regulator for key information critical to its financial analysis and policy formation. And, of course, the new order created grey areas where both organisations may be said to have had overlapping responsibilities.

In addition to the above,. there were policy issues pulling in competing directions. In particular, the enhanced consumer protection emphasis, whilst entirely worthy in the overall context, sat somewhat uneasily with prudential regulation and attracted attention and priority from it, particularly in the early stages. There seemed some confusion, certainly externally, about the fundamental role prudential regulation had in the overall protection of consumer rights. Another example was the bank's mandate for the development of the financial services sector and the lack of clarity, notwithstanding the good co-operation and operational MOU which existed between the bank and the regulator over who was responsible for what.

For all these reasons, the challenge of building the new body into an effective organisation was always going to be significant. This challenge was made even more demanding for the regulator by the discontinuity caused by the loss of its initial CEO after only three years, and two years later, of its chairman, and, of course, by the scale of the crisis, which later developed internationally and domestically.

I turn now to the regulatory system. A critical issue which the committee has heard about *ad nauseam* from previous witnesses and which was fundamental to all that subsequently transpired was the choice of regulatory system. It is not my intention to rehearse all the points already made but I believe it is relevant that, at the formation of the new structure, I can recall no challenge to the adoption by the regulator of that principle-based system. It was, in fact, already in use by the Central Bank. It was consistent with attitudes to good regulation here at the time and it was in widespread use internationally. Specific rules were always part of the system, and these were added to over time as a result of EU and domestic decisions. The Financial Regulator laid out clearly that under the system of the ... under the system, that proper management and control of a financial services provider and the integrity of its systems rested with the board of directors and its senior management and specified the nature of the monitoring checks and inspections that the regulator would undertake. There is now no gainsaying, in the light of what happened, that the original principles *cum* rules based system was not adequate and, in any event, had not been implemented intensively or intrusively enough. Regulatory systems internationally have now been completely revamped since the crisis. Intensive and intrusive regulation is now the order of the day. The actions of the banks have ensured that this must be the case. However it is, I believe, also appropriate to acknowledge the very real concern that actions or opinions which might have been taken or expressed by the regulator or the bank could have had unattended consequences - specifically, that they could precipitate the outcomes in relation to the banking system or the property market which the regulator the bank were seeking to prevent. Even although, with the benefit of hindsight, its clear that much more could and should have been done, these concerns were material in discussions at the time, particularly when the consensus amongst domestics and international commentators was for a soft landing.

I've been of the view that the international dimension has not been given sufficient weight in the various inquiries and reports into the crisis and its genesis. In my responses to the Honohan and Nyberg investigations, I raised these international issues and the passage of time has not altered the views I expressed to these bodies. I still believe there was a possibility that, without the international financial crisis which engulfed us in 2008, a "soft landing", defined as a 20% or even slightly greater reduction in property prices from the peak, might have occurred. The problems in liquidity across the financial markets changed the situation fundamentally. Other witnesses to the committee have, I believe, made the correct connection between the crisis in liquidity, dramatically caused by the Lehman's situation, and the resultant, to all intents and purposes, closure of the wholesale markets and the onset of the spectre of insolvency, pending fresh injections of capital. The capital requirements, which most commentators, both internal and external, believed were adequate in the pre-Lehman scenario, were proved inadequate once the failure of Lehman's happened. All of this was compounded by the almost immediate onset of the recession internationally.

There are three issues, which have been covered in previous testimony, on which my own views as a member of both boards and as a member of the budgets and remuneration committee of the regulator and the bank may be helpful. On the issue of contrarian views, I know of no instances were at board authority or committee levels, there was any attempt to shut down such views. I am not privy to issues of this kind if there were any arising below board or authority levels.

On the issue of resources, it is a fact that there were cost pressures at work. Within the Central Bank board, the Department of Finance representative, in particular, had quite properly a continue ... continuing interest in this area. So too had the consultative panels. In this context, the procedures of the regulator's budget and remuneration committee, known as the BRC, are important to appreciate. The committee received a draft budget from the executive, compiled from detailed discussion within the various divisions of the regulator. The proposals were then the subject of rigorous examination by the committee, and discussion between it and the executive. The outcome was the subject of agreement between the two parties. That outcome was always subject to the requirement that the agreed budget was sufficient for an organisation to carry out its functions and mandate in an efficient and cost effective manner. I was always satisfied that this procedure was sufficiently rigorous to ensure that adequate resources were in place to allow staff to perform the tasks that were asked of them under the system in place at the time. However, as mentioned in other testimony, despite the best efforts of the authority, a full complement of agreed numbers was never reached.

Finally, in regard to the operation of the authority in the Central Bank board, as a non-executive director, I believe both operated well and to their respective remits. I agree that, although a number of the non-executive directors had significant banking and-or financial skills and experience, there was a case for more specialist input. This lack of such expertise was perhaps a hindrance in the ability of the authority to engage fully with the executive in the detailed way that was necessary, particularly as regards the interrogation of credit risk data and the proper interpretation of such data. The main lack, however, was that the authority should have pushed the executive much more forcefully for outcomes in the preface ... in the face of prolonged obfuscation from some institutions.

I now address the lines of inquiry indicated by the committee. Appropriateness of the macroeconomic and prudential policy - during the period in question the Government was generally following a pro-cyclical economic policy. There was significant growth, continuing over a prolonged period, and claims from many quarters for actions whose efforts would have been ... whose effects would have been to further fuel expansionary tendencies. Low interest rates, a major problem for Ireland, were a function of the ECB. Against this background, the macroeconomic and prudential policies advocated by the Central Bank, and which formed an important conditioning environment for the regulator, whilst cautionary, were generally optimistic. Overall these policies, whilst recognising and publically pointing to a variety of risks, nevertheless consistently pointed to a soft landing. The vehicle used was through the Central Bank's financial stability reports. Here the bank was confronted by the dynamic I mentioned in the introduction to this opening statement, that of triggering events which it was actually seeking to prevent.

Final editing of the reports was undertaken by the Governor of the bank and were nuanced to reduce the risk of unintended consequences but without changing their substance. In hindsight, it's clear that from 2005 to 2006 onwards the policies being pursued were not appropriate to the situation which was developing and understated the underlying risks in the growth of credit and related matters. Measures such as increased capital requirements were taken by the regulator but were not sufficient.

Nature and effectiveness of the operational implications of the macroeconomic and prudential policy - overall, the thrust of the financial stability reports was that the banking system was sound. They acknowledged that while there were significant risks in relation to certain key areas the capital position of the system as a whole and of individual banks was at a level which could cope with these concerns. In his evidence, the then Governor outlined the range of considerations which, in the banks view, would keep the situation under control. He also set out a number of factors which subsequently altered the scenario originally envisaged and rendered the actions made inadequate. With hindsight, it is clear much stronger action was needed.

Appropriateness of the expert advice sought, quality analysis of the advice and how effectively the advice was used - throughout my period of office, a range of external consultancy advice was sought to augment resources. Those in which I was most involved were the Mazars report on business process, resource benchmarking and the efficient use of resources and the PwC report commissioned in the aftermath of the September 2008 guarantee into the position of the main banks at that time. In both these cases, it was clearly appropriate that such advice be sought. In the Mazars case, issues around resource levels and allocation and the possibilities for a greater effectiveness were, I believe, self-evident from the earlier discussion relating to staffing levels in the regulator. The quality of the exercises was, I believe, at a high level, relevant and based on sound analysis. The overall conclusion was that resources were adequate for the system in use. In so far as the PwC exercise was concerned, this was largely necessary in the light of the guarantee. PwC had a large team working on the issues involved. I've no reason to believe that the assignment was carried out in anything but an extremely professional manner. However, the outcome, notwithstanding many caveats, was that the banks were at that specific point in time adequately capitalised, and that they would continue to be in the short to medium term. This conclusion was relied upon by the regulator as a key indicator of the health of the system at that time. The detailed views of the bank and the regulator on the PwC report was supplied to the Minister for Finance.

Assessment of what has been done, work in progress and what remains outstanding, etc. - since I retired from any association with the regulator-bank in July 2010, I cannot really comment under this heading.

Cost of the crisis and sharing of the impact - I accept the estimate of the cost of the crisis made by the current Governor of the Central Bank. The indirect costs are impossible to calculate in financial detail at this stage, but perhaps of more importance are the social implications of the crisis and the acute personal distress which so many people have endured. It's not clear to me what alternatives existed domestically for sharing the impact of the crisis consistent with the need to restore soundness to the financial system and to promoting renewed growth in the economy, with its vital social consequence of rebuilding employment levels.

Role and influence of the ECB - this is clearly an issue of substance but I can add little to the sum of knowledge already available. The political issues continue to be the subject of debates.

And, finally, options for burden-sharing - the options under this heading have also been the subject of intense debate. It seems correct that all practical options be considered, and I believe this occurred. Again, these are matters which are primarily in the political domain and which I understand are still being actively pursued.

Finally, I should say that I fully acknowledge that whilst I contributed to the best of my ability to the regulatory authority and to the board of the bank, in hindsight key issues were missed and I shall be ever mindful of the consequences of this. As mentioned earlier, the damage caused to the social fabric of the nation and to individuals has been immense and is a matter of enormous personal regret. Thank you, Chairman.

Chairman: Thank you very much, Mr. Dunne, for your opening statement and also Mr. Begg. If I can begin questions this morning and invite in Senator Susan O'Keeffe. Senator, you have 25 minutes.

Senator Susan O'Keeffe: Thank you, Chair. Mr. Begg, you, I think, I understand that you met the Minister for Finance on 29 September 2008.

Mr. David Begg: I did.

Senator Susan O'Keeffe: So maybe you might just tell us a little bit about that meeting.

Mr. David Begg: Well, the first thing I can say is it had nothing to do with the events which subsequently transacted in the Department of Finance that night. I met him to talk about the general budgetary situation and about, I remember pensions was an issue that we had on the agenda. I met him with a number of colleagues but it was part of a normal process of meetings that takes place around budget time between the Irish Congress of Trade Unions and the Government but there was no discussion at all about the crisis that was unfolding.

Senator Susan O'Keeffe: And what was your understanding, Mr. Begg, at that point about the budgetary adjustments that might be made? How aware were you of how bad things were becoming, particularly behind the scenes and, obviously, in documents we've now seen? Were you aware at that point?

Mr. David Begg: Certainly not the extent of the matters which were that evening discussed. I mean, I was aware, clearly, that there were problems with the liquidity situation, that the European Central Bank had been providing very large levels of liquidity in the Irish situation, that a great deal of money was being taken out of the country by corporates who had usually certain criteria about the credit ratings of institutions in which they can place money. So I mean, I was aware generally speaking that yes, that was happening. A lot of the discussion that took place between ourselves, my delegation and the Minister, was concerned about, sort of, some longer-term strategic issues, pensions being one of them, but also about how you might go about creating some kind of stimulus to the economy with a view to getting people back into employment - you remember that the construction industry, for instance, had been particularly badly hit. I think we had about 286,000 people working in the construction industry and that had really been decimated at that point in time. We were quite anxious to try to get to some point where we could have investment in infrastructure that might, you know, ameliorate the condition in the construction industry particularly. So it was around issues like that. In fact, Senator, I do, actually have a detailed record of that meeting; it just didn't occur to me to bring it with me today.

Senator Susan O'Keeffe: Okay. But just to be clear, leaving aside the banking matters, were you and your group that met with the Minister, were you at that point already aware of how bad the budgetary situation was likely to be as it moved into the actual budget space, if you like, did you know how bad it already was going to be?

Mr. David Begg: Yes, well, I mean-----

Senator Susan O'Keeffe: Had that been indicated to you?

Mr. David Begg: I beg your pardon, sorry, it was clearly a deteriorating situation and we had had some initiatives from the Government at that time already. I don't claim that we had precise information about the budgetary situation; we didn't, but we did know it was a deteriorating situation, we did know it was a deteriorating employment situation and, you know, the emphasis from our side was to try to see, well look, is there any way that we can ameliorate this. And actually we were speaking about it from the point of view of what could be done, what interventions could be made by Government; and I remember the Minister saying at the time, you know, we had a long kind of discussion, and one of his comments was: "I understand your analysis completely, it's a straightforward Keynesian response to the crisis."

Senator Susan O'Keeffe: And so, obviously, you are saying that the Minister didn't raise the matter of the banks, it didn't come up, it wasn't part of the conversation, just to be completely clear.

Mr. David Begg: No, not at all, not in any circumstances, no.

Senator Susan O'Keeffe: So what was your reaction on learning, then, about the events that followed? I take it you were not aware of the events that took place that night?

Mr. David Begg: No, no, I wasn't.

Senator Susan O'Keeffe: Until the next morning, perhaps, on the news?

Mr. David Begg: Whenever it broke in the news, yes.

Senator Susan O'Keeffe: Okay. And so, what was your response when you heard the news?

Mr. David Begg: Well, I suppose my response was really that I couldn't evaluate quite what the significance of the guarantee was, you know, what the full ramifications of it was. It did seem to be very significant, certainly, and, you know, I suppose the thought that occurred to me was, well, look, in the ultimate could we stand over this guarantee, if it ... if hardy came to hardy.

Senator Susan O'Keeffe: But, obviously, as a member of the Central Bank, you had, you were privy to a lot of information that had come down your way - in fact, this applies to both you, I'll bring you in in a moment, Mr. Dunne - over the previous year. So when you saw and heard of a blanket bank guarantee, it could have meant all manner of things to different people listening that morning but as a member of the Central Bank, was it something that you had understood might be a possibility, had it ever been discussed, or did it come out of the blue when you heard it?

Mr. David Begg: Yes, it came out of the blue. It hadn't been discussed within the councils of the Central Bank. I should explain that it is correct that there were good many meetings in advance of that decision but, in the run-in to that period, the crisis was really handled by the ... sort of, Governor from the Central Bank point of view, the director of the regulatory authority, the people in the Department of Finance and the Minister. Like, the boards were not really involved in the run-up to that fateful decision being made.

Senator Susan O'Keeffe: But just to be clear, any conversations that did take place, they didn't discuss a blanket guarantee? Did they ... I mean, I just want to be clear, did you discuss any manner of-----

Mr. David Begg: No, no.

Senator Susan O'Keeffe: No.

Mr. David Begg: No. Not to my recollection, no.

Senator Susan O'Keeffe: Okay. Mr. Dunne, if I might ask you, if you like, in the same way, that I trust that you equally woke up the next morning and discovered about the blanket ... or did you learn about it in a different way, perhaps?

Mr. John Dunne: My recollection is slightly different to Mr. Begg's. There had been discussion, both in the regulator and, to my recollection, in the bank, about possibilities as the situation worsened. And there was a meeting of the regulator - I believe it was around about 16 September - when various options were discussed, if the deteriorating situation went over the cliff and became, you know, an Armageddon-type situation. And the issue of a guarantee, while not overly stated ... overtly stated, was implicitly contained as a result of that meeting. It was one of the things that was talked about and I think there was some discussion in one of the bank meetings and, as David recalls - correctly, in my view, too - there were a whole series of meetings which ran into one to another. But I think there was some discussion of options. Now, there was no finite ... to my recollection, there was no finite decisions, whatever, taken. I do recall also being phoned, I'm pretty sure, by the chairman of the regulator, Mr. Farrell - it could have been Mr. Neary but I think it was Mr. Farrell - on the day or the day before ... it must have been the day, saying that they'd been called to the meeting and that the sort of options that had been talked about would inevitably come up and had they my authority ... I understood there were calls being made to all the members of the authority, but had they my authority to pursue that line in whatever they felt was most appropriate in the circumstances. So the following day, when I read it in the newspapers, I was somewhat surprised but I wasn't completely surprised because I was aware of all these other issues. And subsequent to that, we had a briefing from Mr. Farrell and Mr. Neary and they indicated that having regard to all of the issues involved, they had come to the conclusion that the guarantee was the appropriate mechanism and they had so advised the Government.

Senator Susan O'Keeffe: Documents that we have seen - and, again, obviously, we have to be careful about those - would suggest that there was ... that nationalisation, the provision of liquidity, funding and the winding down of an institution were three of the key areas that were being looked at. Does that sound-----

Mr. John Dunne: Yes, it does.

Senator Susan O'Keeffe: That sounds familiar, okay. And in that three, the additional one of a guarantee was not included at that point?

Mr. John Dunne: It wasn't and I ... this is recollection now, but it wasn't explicitly talked about as a blanket guarantee but there were issues about funds and other alternatives rather than just nationalisation and it was, I would say, a turkey trot away from talking about guarantees.

Senator Susan O'Keeffe: Were you aware, Mr. Dunne, that one of your colleagues on the board was, if you like, separately offering advice to Government at this point? Was that ever made clear to you-----

Mr. John Dunne: No.

Senator Susan O'Keeffe: -----in any conversation?

Mr. John Dunne: No.

Senator Susan O'Keeffe: Mr. Begg, were you aware?

Mr. David Begg: No.

Senator Susan O'Keeffe: No. Can you recall when you might have become aware?

Mr. John Dunne: I ... my recollection of that is that I read it somewhere in some media report.

Senator Susan O'Keeffe: So, in other words, it wasn't formally raised at any point at a board meeting? It wasn't discussed at ... Mr. Begg, do you-----

Mr. John Dunne: Not to my recollection-----

Mr. David Begg: My recollection would be the same, yes.

Senator Susan O'Keeffe: Okay. Mr. Begg, what training did you receive to prepare you to become a board member at the bank? Do you-----

Mr. David Begg: None.

Senator Susan O'Keeffe: None. Was that the normal, or were you just an exception or are you aware ... you know-----

Mr. David Begg: I've told you all that-----

Senator Susan O'Keeffe: -----was everybody trained and you just happened to miss it or-----

Mr. David Begg: No, I don't think anybody received any training. I'm not aware of anybody else who did, at least.

Senator Susan O'Keeffe: And did you ever ask for any training?

Mr. David Begg: No, I didn't.

Senator Susan O'Keeffe: Okay. Mr. Dunne, how about you? What was your situation in relation to training?

Mr. John Dunne: There was some training, I think ... we ... in the sense that there were series of experts. But once the ... remember, I didn't join the board until the new organisation was set up. So I was joining both boards. I can't recall any specific issues relating to the bank. But in so far as the regulator was concerned, various experts were brought in. Normally we would ... they would come in in the evening time and they would speak to their speciality and we'd have questions and answers and so forth. So in that sense, there was some training. But I think Mr. Patterson, when he was before you, indicated that he felt there should have been a lot more and I would agree with that analysis.

Senator Susan O'Keeffe: Mr. Begg, how long were you on the board of the Central Bank?

Mr. David Begg: 15 years.

Senator Susan O'Keeffe: And in terms of sort of good governance, corporate governance, how long ... is there a recommended, or are you aware is there a recommended period for which people should serve on boards?

Mr. David Begg: Well, I think that since then, like I started in 1995 and around 2000 or 2001, I can't remember when the Cadbury report on governance first came to the fore and the general situation now is, I think, that people shouldn't spend more than about seven years on any board.

Senator Susan O'Keeffe: And do you feel that's a good recommendation in light of the fact that you were there for longer than that?

Mr. David Begg: Well, I don't know. I have had experience in other organisations where that has applied. For instance, I was on the board of Aer Lingus for seven years and it's fine. It's probably a good idea to recirculate the ... you know, the expertise and so on, on any body. In general, I think it's a good proposition. You shouldn't stay too long on any place.

Senator Susan O'Keeffe: Mr. Dunne, do you have a view on the length of time that board members should serve in this way?

Mr. John Dunne: I think the shorter periods are appropriate. I mean, it seems to me just common sense. At the end of the day, if you are too long on something, you get too used to it and you can't really contribute in any innovative fashion. One starts to believe one's own propaganda, if you know what I mean.

Senator Susan O'Keeffe: And in terms of your, if you like, service or your time at the bank, do you believe that happened?

Mr. John Dunne: Well, I mean, I joined the bank in 2003 and I left in 2010, so that's a seven-year period.

Senator Susan O'Keeffe: So that was seven years, okay. Mr. Begg, you say in your own witness statement on page 3, you say, ''We were seriously exposed in the banking sector and we didn't know it''. Do you believe that the Central Bank and its board have accountability for that?

Mr. David Begg: Yes, well, the problem was that the affairs of the banks itself, or the banks themselves, were the responsibility of the regulator. The Central Bank itself didn't have any access there and a combination of that and stress tests that were done by the Central Bank was the basis of the assessments that the banks were okay. That was the view of the IMF as well and the banks were operating within capital adequacy ratios that were set by international standards, like the Basel committee, and, okay, it just turned out that they weren't adequate as it turned out. It's absolutely clear.

Senator Susan O'Keeffe: Do you believe that there were ... the tools were available to the Central Bank which could have helped to identify and deal with the risk area?

Mr. David Begg: Well, the system of stress tests were supposed to produce that. The stress tests have been qualified somewhat by the financial stability reports as you will have noticed, I'm quite sure. Maybe, they should have been better types of stress tests and that probably is the situation now. But personally, I wouldn't be competent to conduct a stress test of a bank, so I really don't know. I just say we had 90 economists in the bank and one relies on them to do these things properly.

Senator Susan O'Keeffe: If you look ... if you consider the board now and what happened, is there an argument that boards like the board of a Central Bank should have people with more financial experience, more financial capability on it or what is your view of a mixed ability board?

Mr. David Begg: Well, you see, I suppose from my point of view, I would be a little bit subjective about that. I mean, you know the old expression, ''War is too important a business to be left to the generals'', and the ECB board is ... consists entirely of experts, as you know. Now we can ... all of us have a different view about whether the ECB board is good or bad. I think the mixture is probably better because it is helpful I would have thought to have had some real economy experience being fed into the deliberations of any body like that. But quite where the correct level of balance is, you know, I think, is a matter of judgment.

Senator Susan O'Keeffe: Mr. Dunne, do you have a view on, sort of, the mixed ability board versus, if you like, having more people with more financial experience-expertise?

Mr. John Dunne: Well, I think there is certainly a case in the regulator and, I think, in the bank for more specialised banking experience. I mentioned in my statement that I believe that the lack of it ... of that real specialist knowledge, with the exception of one or two people, was an inhibiting factor in the interrogation of bank executives when they were presenting professional views to the board. Having said that, I also believe that a mixed board is better because there are different tasks to be undertaken and if you just have a complete specialism, then I think you begin to get a very narrow focus. But I think in this particular instance, some greater degree of specialist regulatory knowledge, in the case of the regulator, and prudential macroeconomic expertise, in the case of the bank, would have been helpful. I have no doubt about that.

Senator Susan O'Keeffe: When Mary Burke, who is the head of banking supervision with the Financial Regulator gave evidence here, there were two things she raised and I will deal with them separately. She talked about what she described as meetings, informal meetings on the 7th floor of the bank where bankers came in and had informal meetings with senior managers. Was that something that you were ever aware of, were you ever included in any of those meetings? Had that ever been voiced to board members or was that news to you?

Mr. John Dunne: I was never involved in any such meetings. I never knew they were going on. One anticipated that there would be regular meetings between various levels of staff and that there would be various levels ... various meetings between banking supervisors and bankers. I mean, at the end of that day, that's I suppose what they were about. So, it doesn't surprise me that there were meetings. It does surprise me to the extent that people felt that there were sort of secret meetings going on about which they weren't being informed. But I had no knowledge of that until I saw it in Mary Burke's evidence.

Senator Susan O'Keeffe: Yes, and just to be clear, Mary Burke says on page 98, ''I don't believe ... I rarely ... if ever saw what one would call a minute" of the meetings on the 7th floor', just for clarity's sake.

Mr. John Dunne: Yes.

Senator Susan O'Keeffe: Now she also said, ''I am crystal clear here. [on page 83] We did not have the resources that were needed to supervise these banks.'', and she'll ... she gave some evidence as you are probably aware, of her own attempt to get more resources for further supervision. So, you were a board member at that point. What do you recall about that or did it come to the board?

Mr. John Dunne: Well, I actually was a member of the budget and remuneration committee-----

Senator Susan O'Keeffe: Yes-----

Mr. John Dunne: So I have some first-hand knowledge of the dealings between the executive and the committee in the preparation of the whole budgetary strategy. And that's why in my written statement I have gone to some length to describe the process because I think it's very important that the inquiry understands what the process was in determining whether the ... there were appropriate resources or not. And it's quite true that the executive would come every year with their own suggestions as to what the staff compliment should be. That would have been worked out in various meetings between the very senior management and the staff throughout the organisation. They would present that to the budget and remuneration committee. The committee would then have a discussion with the executives. Those discussions were very detailed and they were quite robust at times and I think that was quite proper and, at the end of the day, there would be an agreed position arrived at.

Senator Susan O'Keeffe: But did you know, for example, Mr. Dunne, that there were only two or three people supervising, say, two of the big banks, and then two other big banks only had two or three people super ... were you aware of that detail?

Mr. John Dunne: Oh yes. Yes, we were aware of the level of banking supervision.

Senator Susan O'Keeffe: And were you happy with the level of supervision?

Mr. John Dunne: Well, the answer was ... the answer to that question is that we never signed off on a meeting where we were fixing staff complement - and I'll come back to the issue of complement versus numbers in a minute - without saying to the executives, "Are you satisfied that you now have enough resources in the context of the current period we're talking about to do ... to do the job properly?" because we were not prepared to sign off on a basis where they did not have the adequate staff. So I disagree with Mary Burke about this matter, but, you know, that's a matter of opinion.

Senator Susan O'Keeffe: Ah, okay. So Mary Burke's observation, for example, that she says, crystal clear, "We didn't have enough, even though I asked for it"; are you saying you knew that she had said that? Or were you just looking at what the executive brought to you, where they may already have made a decision to not allocate to her particular department?

Mr. John Dunne: Well, I can't recall the statement that ... the particulars ... I've no doubt that she made it, but I simply can't recall it. But what I'm trying to suggest to you is this: that the outcome of these reviews were on the basis of an agreed position and the agreed position was not just about the, you know, the nine, ten, a specific number, it was on the basis that: "Are we now happy, both the board representatives here and the staff, that you now have the staff levels which you consider necessary to do this job?"

Senator Susan O'Keeffe: Okay.

Mr. John Dunne: Remember, we weren't doing - and, of course, it's proved subsequently to be a major fault line - we weren't doing intensive-type regulation. We were doing the type of regulation appropriate to a prudential-based system where the onus was on the boards. So what we're talking about is appropriate numbers in the context of a particular regulatory system.

Senator Susan O'Keeffe: So ... so when ... so you disagree with Mary Burke when she said, "We didn't have enough resources".

Mr. John Dunne: I do, and I would point out one other matter, that in 19 ... in 2007, when the staff had come looking for a very major increase in staff, I think it was in the order of 70, 70-plus, and the outcome of that discussion and debate at the end of the day was a figure of 25 new people. In that 77, by the way ... in that 75 only four people were requested for banking supervision. The rest were for various other jobs that had to be done. But in consequence of that, and in consequence of the difference, as it were, between us, the budget and remuneration committee recommended to the board that outside consultants be brought in to do a root-and-branch analysis of this whole area and that was done by Mazars and the Mazars report, which was published in 2009, indicated in a number of different ways that, both in absolute terms and on a comparative basis with other international regulators, the staffing levels as agreed, the complements as agreed, were appropriate. Now, one has ... one had ... I'm sorry, but just let me, if I may, finish this point: one of the big issues, of course, was that complement was never turned into reality, because not once from 2003 to ... until I left the board in 2010 was the staff complement approved ever reached.

Senator Susan O'Keeffe: So despite, actually, what you agreed they never even got those?

Mr. John Dunne: No.

Senator Susan O'Keeffe: So there was a cut off?

Mr. John Dunne: It was never reached.

Senator Susan O'Keeffe: Okay, and why was that not then ... you couldn't pursue that any further as a board member-----?

Mr. John Dunne: We couldn't pursue it any further because the responsibility for getting the numbers rested with the HR department of the bank. But I'm not trying to dump on the HR department because they would say, and ... that they tried extremely hard but they were constrained by remuneration levels for the bank generally and the regulator generally and they simply couldn't get the bodies from a market which was very tight.

Senator Susan O'Keeffe: Finally, Mr. Dunne, you say, yourself, that there was a lack of clarity over who was responsible for what, and you're talking here about the separation of the Central Bank and the Financial Regulator?

Mr. John Dunne: Yes.

Senator Susan O'Keeffe: So that's probably ... I mean, that's quite a serious allegation to make, so can you tell us about how that manifested itself?

Mr. John Dunne: Well, I think the biggest manifestation was in the analytical area, where in the previous incarnation the bank had it all within its own remit, so its economic staff and its regulatory staff were all in the same organisation, and the one fed into the other, as I understood it, pretty seamlessly. In the new situation, and as things developed, the pressure on the regulator for regulatory issues, as distinct from helping with the analytical side of things, was growing and growing and growing and the numbers of staff in the area of analysis was being poached, if I can put it that way, to staff up in the other areas. And so, at the end of the day, there was much greater reliance on the bank side but they felt, as I understand it now in retrospect, that they didn't get the sort of information from the regulator that they should have got and here's an example where things were falling down between the cracks under the new structure because of the confusion over who was responsible for what.

Senator Susan O'Keeffe: So there wasn't a clear line of communication, are you saying, between the regulator and the bank?

Mr. John Dunne: In this particular instance ... in a number of instances but I think this was the most serious one because it impacted significantly on the data which the bank needed for regulatory analysis and credit risk analysis, and so on.

Senator Susan O'Keeffe: Thank you, Chair.

Chairman: Yes, and can I just finish on that point before I bring in Deputy Higgins. We had the Financial Regulator's office, Mr. Begg and Mr. Dunne, and then we had the Central Bank. In the Honohan report, there's a very explicit statement, which says that despite the Central Bank's primary responsibility for financial stability, it was, in fact, the Financial Regulator side, not the Central Bank side, which took the most concrete action to intervene. Would both of you agree or contest with that statement?

Mr. John Dunne: Well, I would agree-----

Chairman: Mr. Begg. Or-----

Mr. John Dunne: -----in this sense, but it's not surprising. You know, the most concrete action taken was the introduction of increased capital requirements in 2006. That was a regulatory action. It proved to be inadequate subsequently. But the fact of the matter is that, you know, that was a concrete action taken by the regulator. But I have to stress, Chairman, that I'm not in the business of trying to push blame from one side to the other side. I was a member of both bodies, so I had responsibility in both.

Chairman: And that's what I want to tease out with Mr. Begg. In regard to that comment by Professor Honohan, what would your own opinion be?

Mr. David Begg: Yes, well-----

Chairman: Would that be-----

Mr. David Begg: Well, as John said, I mean, the actual implementation was a function of the regulator to ... if it came to a question of changing the capital adequacy ratios and they did that. I mean, it might be argued that that was ... turned out to be too little and too late to seriously affect the course of events. But there was a corresponding difficulty, you see, with the ... with the Basel II directive, the capital acquisitions directive or whatever it was called, which actually allowed for the reduction in the capital ratios for certain types of lending. So, in a sense, despite it being inadequate, the Irish regulator moved in a way which was, if you like, counter to what the international trend was in making that particular adjustment.

Chairman: And in that regard, and I'm putting the question to both of you again, and then I'll move swiftly on to Deputy Higgins: what we're talking about here is that there was, sort of, micro behaviour taking place over in the regulator's office in regard to microeconomic factors and such. The regulator's office primary duties were in two areas; one, consumer protection and the other one is the regulatory structure in which the financial institutions would operate. The Central Bank had a broader brief, which was the responsibility of stability, and the wider stability, so was the issue of the micro activity being looked at in a stability context by the Central Bank, by your recollection? Mr. Begg?

Mr. David Begg: Well, the ... there certainly was an engagement between the two parties on the financial stability question. That was a giant effort. Most of the work on financial stability was done by the economists in the Central Bank but it was signed off by the regulator. It had to be, that was the way it was jointly set up. Now, the problem, in a sense, was that, you know, it's a little bit chicken and egg, the financial stability reports identified all the risks to the economy but qualified them by saying that, you know, it looks as if the banks are sound. Presumably, that was based on feedback which was received concerning the banks and also, in fairness, the stress tests which the Central Bank was responsible for and the IMF was responsible for carrying out. My own opinion of it is this that if you have a look at the financial stability report for 2006 and 2007, the 2006 report is, you know, it'd be hard to fault it, basically, in terms of looking at the risk and looking at the exposure to the banking system. In 2007 then, there was a, sort of, a pull back from that a little bit because, I think, the rate of price increases began to moderate. There was something like a 3.5% reduction in the rate of house prices, which ... of house price increase, which, I think, was interpreted as a sign that the, you know, that the, the soft landing was actually beginning-----

Chairman: To get harder.

Mr. David Begg: Yes.

Chairman: Okay. Mr. Dunne?

Mr. John Dunne: Well, I agree with what David has said. I'd also add that in the context of the decision by the regulator to increase the capital limits in 2006, that had to be a joint decision because that had impact for financial stability and, under the rules, that had to be signed off by the Governor of the Central Bank as well, and that happened. So, you know, once the regulator was going to take decisions which impacted on any ... in any way on financial stability issues, then it became a joint matter.

Chairman: Okay. Deputy Higgins.

Deputy Joe Higgins: Thank you, Chair. Good morning, gentlemen. Mr. Dunne, could I just ask you first, perhaps, if you could outline the process surrounding your appointment as a board member to the Central Bank, just, in relation to how you were approached? Was there a nomination of selection process, or a ... and then, later, a renomination, extension of tenure process, please?

Mr. John Dunne: My recollection is that I was contacted by the Secretary General of the Department of Finance. I was asked would I be prepared to serve, and, after some reviewing of it, I said I would.

Deputy Joe Higgins: So, you were appointed to the board of the Financial Regulator then, in 2003, you were on board of the Central Bank and of the Regulator.

Mr. John Dunne: Correct.

Deputy Joe Higgins: Yes. Now, you say in your statement, Mr. Dunne, in page 1, "I believe that my role within IBEC and perhaps more especially in the successful conclusion and operation of the merged organisation [I take it that that's the Federated Union of Employers and the Confederation of Irish Industry, becoming IBEC] was a significant factor in my being asked to join the board of the Irish Financial Services Regulatory Authority, and subsequently of the Central Bank." Why would that be a significant factor?

Mr. John Dunne: Well, I think it stems from the fact that in the case of the Central Bank and the regulator, they were setting up a new organisation out of the de-merger, if you like. They were taking one part of the bank and setting it up as a new body. In the case of the merger between the CII and the FIE it had been the opposite; we were merging distinct bodies. But it was the same sort of process, if you like. One was in reverse of the other but the same sort of issues - cultural issues, organisational issues and so forth - were present in both of those. And, there were, at the time of the creation of IBEC, lots of people who believed that this was going to be a very difficult exercise because the cultures of both organisations and their remits were very different, and yet, it had worked out reasonably well. And I believe that it was the organisational issues and people believing that I had some skills in that area that would be useful in the similar but different situation in the bank.

Deputy Joe Higgins: Yes, but then you say, a little bit further on, Mr. Dunne, "I was appointed to the Board of the Financial Regulator - the Authority as it was called - as a non-executive director in 2003 and am therefore unable to comment from an IBEC perspective on any of the issues raised in the Committee's terms of reference for my appearance before it." There's a, kind of, a contradiction there, I would-----

Mr. John Dunne: No, I hope I haven't confused the inquiry. I'm simply saying that, since I was no longer a member of ... since I was no longer in the employment of IBEC - I had retired in 2000 - therefore, from that date onwards, I'm not in a position to say what IBEC might think about certain matters. It's as simple as that.

Deputy Joe Higgins: Okay. Mr. Dunne, both the regulatory authority and the Central Bank board had some common membership. Can you remember how many members of the regulator board was also on the Central Bank?

Mr. John Dunne: I think it was six, Deputy.

Deputy Joe Higgins: Okay, and in the ... what ... why were they on the Central Bank board and what did they bring to the board?

Mr. John Dunne: Well, I assume that the joint membership was to provide for a bridge between the operations of both so that each would be informed of what the other was doing, and any problems arising should have been capable of being ironed out on that basis. That's my assumption.

Deputy Joe Higgins: And then, in the course of the 2000s, Mr. Dunne, in what is commonly now understood to be the blowing up of a very big bubble in property and lending, were you aware of the extent of lending by banks for the property sector?

Mr. John Dunne: Yes.

Deputy Joe Higgins: Was that discussed in great detail on either of the two boards?

Mr. John Dunne: Yes.

Deputy Joe Higgins: What were ... what was the feeling in relation to this?

Mr. John Dunne: Well, the feeling was one of concern, and the discussions inevitably went around dealing with, you know, the questions which were arising - Is this going to get out of control? What ... where is it going to end? But in every case, the professional advice from the staff was to the effect that these were concerns, no question about it, but that the buffers present in the Irish banking system were adequate to deal with any of the issues that were arising. And, as David Begg has said earlier on, that view was supported by all the international expertise.

Deputy Joe Higgins: At the same time, Mr. Dunne, you were a vastly experienced person in business. I mean, would you have been aware of the experience in the Scandinavian countries, for example, in the 80s and 90s, of a significant bubble and bank crash that caused quite considerable problems for the peoples of those countries?

Mr. John Dunne: Well, I think the answer to that is "Yes", and I think those considerations were part of the discussion, which I mentioned earlier, that was going on.

Deputy Joe Higgins: Yes, but shouldn't lights had been flashing, very, very strongly?

Mr. John Dunne: Well, I wouldn't deny that lights should have been flashing. Of course, they should have been flashing. All I'm saying is that the concerns that board members had, in both the regulator and in the bank, were ameliorated and mitigated to the extent that we pushed those concerns aside in a way that we shouldn't have by the strength of the advice that was coming from within the bank itself and from the external commentators. I mean, we had, not just the professional staff of the bank telling us that the buffers were sound, we had the ESRI, we had the IMF, we had the OECD, all of these bodies telling us that, despite those concerns, which were very real concerns, and despite the fact that they were being discussed in the boards as major concerns, nonetheless, that was the weight of the professional advice.

Deputy Joe Higgins: Was it a factor, Mr. Dunne, as several witnesses have given evidence, that there was a predilection for so-called light-touch regulation, and a reluctance to interfere with the capitalist marketplace? Was that a factor?

Mr. John Dunne: No, I don't believe that was a factor at all. I dislike the term "light-touch regulation" because it suggests that people really weren't doing their job. I mean, we were operating a system of principles-based regulation, which ... the rules of which were quite clear, and I think that was the major part of the problem. But there was no pressure, in my recollection, for anybody to say, “Look, hands off this” or “hands off that”, for any reason.

Deputy Joe Higgins: But perhaps. Mr. Dunne, was it in the ether of the establishment thinking? And, for example, as a representative formerly of a big business organisation yourself, would you be predisposed to very little regulation?

Mr. John Dunne: No, I wouldn’t. As it so happens, in my term within IBEC, and remember now I retired in 2000, the issue of the new type of regulatory process that came in after the McDowell report hadn’t been a feature, but if it had been a feature, I would have been supportive of the Central Bank view, which was that it was better housed in a single authority. And I think that the ... all the events of the day, which have seen the issue turn full circle, suggest that that was correct.

Deputy Joe Higgins: Mr. Begg, if I could just ask yourself the ... the same question to begin with - the process of appointment as a board member to the Central Bank how you were approached, was there a nomination or selection and what was the process for renomination or extension of your term?

Mr. David Begg: Yes, well, it was pretty much the same as John has explained this. Somebody from the Minister’s office phoned me and asked me if I would be willing to serve, and I said I was, and then I had a formal appointment from the Minister, that was in the initial appointment in 1995. And, in terms of reappointments, it was just simply the Minister rang me and said he was reappointing me.

Deputy Joe Higgins: And why were you appointed, do you think?

Mr. David Begg: Frankly, I don’t know precisely. I didn’t inquire into it at the time. I was pleased to be appointed, I have to say. I assumed it was because that ... it was felt I had something to offer, but-----

Deputy Joe Higgins: Then, Mr. Begg, you became General Secretary of the Irish Congress of Trade Unions in 2010.

Mr. David Begg: From 2001.

Deputy Joe Higgins: Yes, of course, 2001. Excuse me. Did you see yourself as a representative of workers on the board of the Central Bank from then on?

Mr. David Begg: Well, now I said explicitly, I think in my written statement, that I was not a representative of the Congress of Trade Unions ... of the Central Bank, and there was a considerable time lapse between my appointment to the bank and the time that I became General Secretary of Congress. There was a period of six years, and I never discussed, you know, the business of the Central Bank with the executive council of Congress, or anything like that. I didn’t----

Deputy Joe Higgins: So you didn’t report to the Irish Congress of Trade Unions in relation to ... I’m not saying confidential stuff, but the issues of the day as they would affect working people?

Mr. David Begg: I never reported to them on the deliberations of the Central Bank. I gave them a report every month at the executive council meetings on the state of the economy as I saw it, and various trends and so on that were there, and I spoke about that publicly. And I’ve given you, I think, fairly detailed, you know, evidence of my public pronouncements about economic matters.

Deputy Joe Higgins: But with respect, Mr. Begg, how ... I mean, considering the decisions of the Central Bank and, indeed, the regulator, have such profound effects on working people, how could you, kind of, separate the two?

Mr. David Begg: Well, you could separate them operationally in the sense that I wouldn't report back. That simply wasn't acceptable. That was, you know, something that was covered by the confidentiality rules of the legislation governing the bank. But in terms of my values or my belief system, I think I've made it quite clear that I brought that to my work in the Central Bank. And I did say in my evidence, even this morning, that there was some tension between, you know, what I believed in and the prevailing orthodoxy of the time. I mean, the prevailing orthodoxy was one located in the context of the Great Moderation and a belief in new macro-economic management and efficient market hypothesis. I, on the other stand, was broadly a Keynesian, and there was ... these were two separate paradigms, and they did come into tension from time to time and, you know, that was ... that happened at the board of the bank. I said what I thought, other people said what they thought and we didn't agree always, but, you know, that's not unusual.

Deputy Joe Higgins: But you didn't see yourself, specifically, as a representative of working people and their interest in how you operated on the board?

Mr. David Begg: I always try to operate in the interest of working people because that's my core belief, if you understand me, but I do need to be precise, Deputy, and say that I did not see myself, nor was I, a representative of the trade union movement on the board.

Deputy Joe Higgins: Trade union movement meaning hundreds of thousands of workers, is-----

Mr. David Begg: Yes, I wasn't a representative of that ... well, of the organisation of the workers, which was the Irish Congress of Trade Unions.

Deputy Joe Higgins: Just moving on, Mr. Begg, would ... to quote from your statement:

> With the enactment of the Central Bank of Financial Services Authority of Ireland Act in 2003, I was re-appointed to the board of the Central Bank but not to the Authority. Thus I had no further involvement in supervision or regulation of the Banks.

And then again you say:

> The 2003 Act was fairly specific about the respective roles of the Regulator and the Central Bank. The Regulator was autonomous in his powers and responsibilities. The only areas of joint engagement was in relation to sign-off of Financial Stability Reports and shared services such as IT and HR.

But that's not what the legislation dictates, is it?

Mr. David Begg: I don't understand.

Deputy Joe Higgins: You ... the ... well, maybe we could put up the memorandum of understanding-----

Chairman: What page is that, Deputy?

Deputy Joe Higgins: Yes, it's page 3.

Chairman: Of which document is that?

Deputy Joe Higgins: This is a memorandum of understanding between the Central Bank board and Governor and the Financial Services Regulatory Authority.

Chairman: On the right hand corner of the page.

Deputy Joe Higgins: Yes, we ... it's coming up.

Chairman: Thank you

Deputy Joe Higgins: Yes, if we see there that the board's responsibilities, therefore, involve-----

Chairman: Which page are we there, Deputy?

Deputy Joe Higgins: We're on the page, yes.

Chairman: Yes, okay. Fire away.

Deputy Joe Higgins: The highlighting is actually making more difficult. I'll just go to point 3 there, Mr. Begg:

> ... responsibilities therefore involve:
>
> iii) ***overview of the domestic financial system as a whole***. The Governor and-or Board will advise all relevant parties on the implications for financial stability of developments in domestic and international markets and payment systems. and assess the impact on monetary conditions of events;

And the next paragraph:

> iv) ***analysis of the micro-prudential - where appropriate - as well as macro-prudential health of the financial sector***. In this context, the Governor and/or Board's objective is to identify developments which could endanger the stability of the system as a whole, and will advise accordingly;

Isn't it very clear that the board of the Central Bank had a responsibility in relation to issues such as developed in the exponential lending and the property concentration in the bubble?

Mr. David Begg: Yes, well, this would have been reflected in the financial stability reports, and they would be based on the economic assessments made by the bank and the assessments of the state of the banks by the regulator. So this was a combined effort, I think, as already been mentioned.

Deputy Joe Higgins: But Mr. Begg, you said in your statement, your referred to a witness here saying that a member of the board says, "It was all a house of cards and would end in tears". And what you said is you're not sure if it was you, but it could have been you because that's how you felt. So how did you feel at the time?

Mr. David Begg: Yes, that's ... I did feel that because I could see on the ground that you had a situation where a lot of people were investing money, borrowing money to invest in houses, which, as I said, were, in many cases, being constructed by people who had come here to work in Ireland who, in turn, were renting those houses, and it seemed to me that it was creating a, kind of a, spiral, which was, ultimately, not likely to be sustainable, or, at least, had huge vulnerabilities built into it.

Deputy Joe Higgins: Can we look at the ... the Allied Irish Bank document that I've just put up there? And this is a review by AIB in relation to the amounts of lending from 1998 to 2008, and you see there that general loans and advances increased by 330% in AIB, 325% in Bank of Ireland, Anglo 1,950%. Now property advances, which is the next series - 935% at AIB, 2,884% in Bank of Ireland, and 2,155% in Anglo, and the final two columns is the property concentration, which rapidly increased, exponentially. That happened from '98 to 2008. Was ... was the board of the Central Bank aware of this exponential level of lending and how it related to what was going on in the property market, including the price of houses?

Mr. David Begg: Yes, well, the board was pretty much aware of the general conditions in the property market. It was debated, as John said. I made my own inputs in relation to that, from my own experience. I think there were other people who had different views, certainly. There was one particular view I remember a board member had, somebody who had worked in the property sector for a long period of time and who felt that, you know, Ireland was somewhat unique in that Ireland had never had a property collapse, unlike Britain and the Scandinavian countries and so on. There were other people who were extremely worried by it and, you know, there were general debates about this into which I contributed my own particular views.

Deputy Joe Higgins: Mr. Begg, the price of a home, we had evidence here, for an ordinary working person from '96 to 2006 increased each year by the equivalent of the average industrial wage; each year. Were you screaming about that as a worker's representative in the inside of the Central Bank?

Mr. David Begg: Well, I spoke about it not just inside the Central Bank but in the National Economic and Social Council and very publicly and I've given you the evidence of that, where I said that, "Look, this level of growth in the economy is, in the longer term, likely to be damaging." We would have been better to have tried to adjust the economy to grow to maybe twice the European Union average, which would have been around 3% or so, because, in the long term anyway, we were outpacing the capacity of our infrastructure to meet some of these requirements and, in fact, people ... you know, it affected my own family, people were moving 50 and 60 miles away-----

Deputy Joe Higgins: Yes, well, obviously-----

Mr. David Begg: -----in order to get an affordable house.

Deputy Joe Higgins: Mr. Begg, you would have related that, I'm sure, then to the exponential explosion in lending by the ... the banks. The mortgage going to 35 to 40 years, even for young people, being absolutely shackled and saddled, but you - and Mr. Dunne, indeed - you were on the board of the Central Bank, what did you do to try to stop it?

Mr. David Begg: Well, I mean, we put in our point of view. The board's decision was a synthesis of the different views that it heard from different directors and from the expert people it had working for it, plus the international feedback, plus the stress tests. And you can see that those concerns that I raised specifically about, you know, the construction sector and immigration and its effects on borrowing and so on are actually addressed in the financial stability report for 2007, but the conclusion at that time was that the banks were resilient enough and strong enough to withstand any shock that might emerge arising from that.

Deputy Joe Higgins: Did you consider retiring ... resigning at any time from the board because there wasn't progress being made in the interests of controlling the ... house prices, for example?

Mr. David Begg: No, I never considered it. Generally speaking, it's something I don't generally do ... is resign from things. I think you have to stay and get ... look, I mean, I was coming from a different value system than most of the people on the board but that simply wouldn't have helped ... to resign from that. It is much better to stay engaged and to try to influence in-----

Deputy Joe Higgins: Okay.

Mr. David Begg: -----whatever degree you can.

Deputy Joe Higgins: Could I ask you both then, gentlemen, in relation to the 2007 financial stability report, would you say it's fair to say that it was a report that was at variance, manifestly, with the reality of what was happening in the property market at the time?

Mr. David Begg: I wouldn't say it was manifestly at variance for this reason: that the risks were all identified, but the risks were, if you like, qualified by this view that the banks were able to handle them and also that the price levels of ... the rate of increase in housing was tapering off at that stage and the view taken in the report, I suppose, was that that meant that things were improving a little bit and it was not as strong as the 2006 financial stability report concerning the risks of the banking sector.

Deputy Joe Higgins: Well, Mr. Honohan, the Governor of the Central Bank said in his report, "The central conclusion of the 2007 FSR regarding a likely "soft landing" for the housing market does not appear to have been based on specific quantitative evidence or analysis." And he says further, "quantitative analytical evidence was not provided in support of the key conclusion [...][of] a soft landing." And, gentlemen, can I say, you had the benefit of, for example, the Morgan Kelly analysis early ... at the end of 2006, but especially in 2007, did that make an impact on you that should have required this report to be majorly different?

Mr. David Begg: Well, can I say for my part, I mean, I have put my views on the public record about the difficulties in the economy, particularly in the construction sector. I didn't see the international conditions which would bring about the crisis, certainly that is true, but I did see the difficulties with the overheating of the domestic economy and, you know, I've given you comprehensive evidence about that, about my statements about that. And, in fact, if you want, I can make more of them available because, I've just said to you this morning, what I've said there I've said at least ten times in newspaper articles and in speeches and so on over that period between 2005 and 2008.

Deputy Joe Higgins: Mr. Dunne, just in relation to the same point, but also Governor Honohan says that:

> [M]any participants - at all levels - in the [financial stability reports] drafting process have indicated that [...] highly "nuanced" messages conveyed [to them] reflected an institutional desire at senior levels in the organisation to adopt a cautious approach [...] This mes-

sage was conveyed to staff working on FSR matters and, given the [...] hierarchical culture, was clearly a factor inhibiting staff presentation" Were you aware-----

Chairman: Where is that now, Deputy?

Deputy Joe Higgins: This is Governor Honohan's report, I've quoted from two or three different pages which I don't have time to bring up, Chair, but what I've said are quotes from the Governor's report. Were you aware of this, Mr. Dunne, of pressure on the staff essentially to modify and tone down, perhaps, fears they had about where the property bubble was going?

Mr. John Dunne: No, I wasn't. I'm quite clear about that. I mean, the process again is important to understand. The detail of the financial stability reports were discussed between the staff, the senior staff responsible on the economic side of the Central Bank's house and the boards of the Central Bank and the regulator. So, at the end of the day, the staff concerned had every opportunity to say whatever they wanted to say but what they said was ... was what appeared in the reports. Now, in my own statement, I make the point that the ... the Governor of the bank was responsible at the ... at the last, as it were, for editing the reports. And the reports were nuanced in a way which ... the final reports, that is, were nuanced in a way to try and ensure that the very things that the bank and the regulator were seeking to protect, namely, to achieve a soft landing and not have the collapse that we eventually saw, that nothing in the report would ... would actually precipitate that and-----

Deputy Joe Higgins: Well, were they compromising the truth then, Mr. Dunne?

Mr. John Dunne: I beg your pardon?

Deputy Joe Higgins: Were they compromising the truth?

Chairman: Final question now, Deputy. Final question.

Mr. John Dunne: Absolutely ... absolutely not.

Chairman: Okay.

Deputy Joe Higgins: No, but you seemed ... I'm just trying to tease this out ... in final, Chairman ... that you seem to say, and, indeed, it's in your statement already, the same point that you just made there.

Mr. John Dunne: Yes.

Deputy Joe Higgins: But are you saying that they hid the truth - the real truth - for fear of spooking the so-called markets?

Mr. John Dunne: No, I'm not saying that. I'm saying that there ... the chapter and verse was in the reports but they were written in a way which didn't cause a collapse in property prices or a run on the banks. I mean, if we had ... if the result of the reports had been to do either of those, we wouldn't be even sitting here talking today.

Deputy Joe Higgins: But does that suggest, Mr. Dunne-----

Chairman: I'll be bringing you back in the wrap-up. I'll be bringing you back in wrap-up. You're opening a new line of questioning, I'll bring you in the wrap-up. There is just one short supplementary. Okay, thank you.

Okay, Mr. Begg, if I can just deal with a couple of questions with yourself there and if I can just get a ... this is a ... crisis management key findings from the five reviews - the five reviews being the Honohan report, Nyberg, the PAC, Regling and Watson and the Wright report. And if I can just ... is it coming up there, is it? This is just a summary document and it's a note to witnesses. If we can just move on to 005 of that document there, it's a bit further in. There we go, that's it. Thank you. Yes, that's the one. Mr. Begg, if maybe, if I could begin with yourself, that various reviews of the banking crisis refer to the phenomena of groupthink in the lead up to the crisis. Maybe if I can begin by putting the question to you, do you believe that social partnership, with its emphasis on consensus, created its own form of groupthink between government, trade unions, employer bodies, in terms of policy analysis and recommendations?

Mr. David Begg: No, I don't think that. I suppose I would say that wouldn't I? But I don't genuinely think that. I mean, the social partnership process had its ups and downs over the years and its fair share of conflict and so on. I mean, I just remember for instance myself being involved in a very long industrial dispute in the post office in 1992, which you know, certainly wouldn't have suggested any groupthink on the part of the parties involved. So, no, I don't think that. If you have anything specific in mind, though Chair, I'd just-----

Chairman: Yes, sure-----

Mr. David Begg: -----address it, you know?

Chairman: Okay. Mr. Dunne?

Mr. John Dunne: No, I don't think there was. I mean there were very significant differences of approach between the business community and the trade unions over the period and they were reflected in negotiations, and outcomes were achieved. There were no groupthink in ... to my way of thinking. Except perhaps-----

Chairman: Sure.

Mr. John Dunne: -----on the first programme, the programme for national recovery, where there was, I think, a measure of agreement from the beginning that certain things needed to be done and the issue really turned out ... the big question turned out to be whether from the business community, we could expect and trust that we would get delivery. And that was the big question mark. And once we were satisfied that delivery was possible, then I think we were buying into the process.

Chairman: If I could maybe just refer on the ... there's two statements there; I just want to address. One is from the Wright report and it's under the heading there - whether income was a cause. Just a mid-paragraph analysis.

> Wage settlements accelerated markedly from the late 90s, in absolute and in relative terms. The "trilateral" wage agreements continued but became less relevant as workers negotiated supplementary wage increases against the background of full employment and an overheating economy. Compensation per employee, which had grown more or less in line with the euro area average until 1996, increased at two to three times the euro area average from 1997 to 2008. In nominal terms, annual gross wages in Ireland in 2007 were the highest in the euro area except Luxembourg. Ireland had also the highest price level in the euro area according to Eurostat statistics. Competitiveness deteriorated significantly.

That's from Regling and Watson.

On the next column below it there, and I'll just take the mid-paragraph out of that, it says:

> But budgetary policy veered more toward spending money while revenues came in. In addition, the pattern of tax cuts left revenues increasingly fragile, since they were dependent on taxes driven by the property sector and by high consumer spending. Ireland was also unusual in having tax deductibility for mortgages, and significant and distortive subsidies for commercial real estate development, yet no property tax.

Now, the premise that could be presented by these statements is that social partnership was a win-win for everybody and everybody was going to get something out of the pot. But that, in reality, the pot wasn't big enough to accommodate everybody's needs and there wasn't enough in there and eventually it would come asunder. The ... those five reports are quite critical of the social partnership model to all parties associated, not just workers, but business and all the rest. How would you respond to those criticisms, do you think that they're valid, or that they're inaccurate or would you like an opportunity to address the criticisms that have been raised in those reports, Mr. Begg?

Mr. David Begg: Well, I would reject them quite frankly. First of all, I think, in terms of wage movements, that wage movements only tracked inflation over the period of those agreements and inflation was running at around 4.5% on average. And that was against the cost of living situation, which was 29% higher than the European Union average. So I don't think that there was anything, kind of, irrational or immoderate about all of that and I think the significant thing actually is that the wage agreements held in circumstances of very tight labour markets at a time when the economy was growing at over 10%. I mean, it's very easy with the detached people to take a critical view of something like that. But I very well remember the first serious crisis I had to deal with as General Secretary of the congress was when I took over in 2001 when the secondary teachers had actually left the congress of trade unions at that time, over disagreements essentially with congress about what the levels of pay should be and about moderation. And if I may, for a second, just quote to you a statement made by the president of SIPTU at an ICTU conference at that stage, which encapsulates this and which precipitated that great difficulty for me. He said, in relation to the aspirations of people, particularity in the teaching profession at the time, and I quote him now. He said:

> You don't live on the moon. Don't expect that private sector workers are going to sit back and see you going in for your special, and your other special and your other special, plus the other national pay agreements and say, "That's grand. We don't notice". Survival into the next millennium is entirely dependent on our ability to manage success effectively. We mustn't take our eye off the ball of social wage. If we descend into mere sectionalism, if we descend into the worst form of dog-eat-dog capitalism, because that is what it is, the strong will succeed and the poor will go to the wall.

Now, that wasn't me. That was said before I went in but I think it does demonstrate a very responsible, long-term view about what the trade union movement was trying to achieve. The other thing I would say, Chairman, in relation to it as well is that this was at a time when significant productivity improvements were taking place in Ireland. Ireland was about 30% ahead of the EU in terms of the rate of increase or productivity. And it was happening also at a time when that was taking place while labour share of national income actually drifted down by about 10% in the period between 1990 and 2009. So I absolutely reject that and there are alternative pieces of academic research which contradict that and I've cited to you McGuinness *et al* of the ESRI who clearly showed that there was very significant gains in social partnership from the point of view of the high-tech industries locating their-----

Chairman: I just want to go back to one point. I just want to bring in Mr. Dunne and ... because we know that going into 2000, there was a ... 2008, the social partnership was still looking to extract more from the pot and the ... later in the year, it was showing that the income wasn't actually there. But returning to the earlier point, Mr. Dunne.

Mr. John Dunne: Well, I have difficulty in dealing with anything after 2000 because I wasn't around. In the period up to 2000, I find it difficult to subscribe to that, but I think those series were looking into the period way beyond 2000. So, you know, for my money, up to 2000 those issues certainly wouldn't have been relevant.

Chairman: So, just to return then, to your own time, Mr. Begg, at the latter end, as were facing into the crisis and a bailout was coming into ... on the horizon, a banking guarantee was becoming more evident, as we saw from discussions here, was there a desire in social partnership, from your experience, from all the parties not just the union sides but employers and so forth, that there needed to be a moderation and maybe a pull back, rather than an increase?

Mr. David Begg: Well, in fact, I mean there was a very prolonged negotiation in 2009, concerning the public service dimension of this, which, you know, we understood that the terms of a settlement had largely been agreed, but in fact it wasn't accommodated or it wasn't accepted at a political level at the time. And the position of IBEC, far be it for me to speak for IBEC, but I'm just recalling what the position was, that IBEC stayed in the agreement for much longer after the collapse of those talks because they hoped that it could be kept going. But with the Government out of it, it was very difficult for them to do that. And in an overall sense though, to be fair to everybody I think, there was a difficulty that the analysis which the Government was working on, which was essentially the analysis imposed centrally from Europe to a large extent, was at variance with our view of what would be the best road forward. Our view was that we wanted to try to do the fiscal adjustment over a longer period of time and to try to back-load it rather than front-load it, in order that we wouldn't collapse domestic demand due to deflationary pressures.

Chairman: Okay.

Mr. David Begg: So it would have been quite difficult to reach an accommodation with the Government at the time, over some of those things.

Chairman: Okay. If I can just revert to yourself, Mr. Dunne. In your opening statement - and if I can get it up there please - you ... and this is related to your earlier engagement with Deputy Higgins, you state that the bank was confronted by the dilemma of ... then going on, triggering events which it was actually seeking to prevent and then going on to say again specifically that they ... they could precipitate that very ... the very outcomes in relation to the banking system and the property market which the regulator of the bank were seeking to prevent. Now, there's overall ... in ... just come back to your statement again there. In the ... I think it's the fourth paragraph up from the bottom, you kind of ... you're in the same space here. You were saying:

> Overall these policies whilst recognising and publicly pointing to a variety of risks nevertheless consistently pointed to a 'soft landing'. The vehicle used was through the Central Bank's Financial Stability Reports. Here the bank was confronted by the dilemma mentioned in the introduction to this opening statement - that of triggering events which it was actually seeking to prevent.

One could ... would have to test the question here - were the banks through the financial stability reports, as Deputy Higgins, kind of, indicated, in a position that if they scared the horses here that it would become a self-fulfilling prophesy and what was being tried to be avoid would be indicated if the banks were more specific in their stability reports at that time? What would your response be to that thesis?

Mr. John Dunne: I think that's a fair thesis. There was real concern that if the issues were wrongly stated then you could have had consequences which were absolutely unintended and which would have been the opposite of what the bank was trying to do and in retrospect, I think that that was too dominant a concern and that in the circumstances which we now know were developing at that particular point in time, we should have erred on the side of incaution or uncaution, rather than caution.

Chairman: And in that cautionary environment that you just explained to us, Mr. Dunne, did that create an environment where ... and the events that were happening that the bank was trying to prevent details of the discussions on these issues or whether, with hindsight ... we discussed that they could have actually triggered them through a self-fulfilling prophecy, but was there, if not an explicit, an implicit editorial policy with how the financial stability report would present to the outside world?

Mr. John Dunne: No, I don't think so. I think that to be fair to everybody that the reports were signed off on the basis that they contained the appropriate concerns and warnings about credit control ... credit risk and so forth and so on but the attempt was made to do that in a way which didn't cause panic-----

Chairman: Okay.

Mr. John Dunne: -----and which obviated the problem of the results being the opposite to what you were trying to achieve. That's a very difficult scenario and I'm saying in retrospect that probably the nuances were seen as too important.

Chairman: Okay. My apologies as well for that interruption. Mr. Begg, would you have a different or a similar view-----

Mr. David Begg: Yes, I mean-----

Chairman: -----with regard to the difficulties that that ... as outlined by Mr. Dunne?

Mr. David Begg: The only thing I'd add to what John said was that there were a lot of pressures at the time, even from the political system, about a concern that the construction sector would decline quickly. I mean, I remember one senior person in politics actually calling for, I think it was the halving of stamp duty in order, to sort, of give a boost to the construction industry at the time, you know, so, okay, the manage ... I suppose, what the bank was trying to do was to manage the situation down into what would be hopefully a soft landing, which, of course, might have happened had the international circumstances not arisen. I do think to some extent too, you know, probably people were conditioned a little bit by their beliefs. I mean, there was an extraordinary buy-in to the international orthodoxy of the time about new classical macroeconomics and efficient markets hypothesis and so on, and to go against that would have been, sort of, the equivalent of apostasy on the part of the Pope's private secretary almost, do you know what I mean?

Chairman: Finally ... and what I propose we might just take a five-minute break at that stage and then we can return as we've a busy schedule, but I just need to maybe call a short break. Finally, to yourself, Mr. Dunne, the IDA publication "Winning direct" ... or, sorry, "Winning Foreign Direct Investment 2015-2019" states "A critical element of IDA Ireland's new strategy will be a continued strong focus [of the international] key sectors of [financial services]" and so forth. Just in the last paragraph there ... this is actually the document itself, page 2 of it, the very last paragraph says:

> As a result Ireland's challenge is to be strategic and central to business development plans. Strategic to international companies who are often under huge pressure from shareholders and more generally financial markets. Fortunately, Ireland has remained central to leading global corporates for many decades. IDA Ireland's aim in this strategy, is to ensure that Ireland continues to be one of the most developed, ambitious and welcoming locations in the world for our existing and new clients and a highly supportive environment for future growth.

Mr. Dunne, during your tenure at the IDA, how important was Ireland principle-based or light-touch regulation, as it has been alternatively referred to ... that regime, how ... how often was that used and how much was it a basis, as a marketing tool, to attract financial services from ... for foreign direct investment to Ireland in the financial markets?

Mr. John Dunne: I don't recall it as being top of the agenda at any stage during my tenure but we're talking about a different period here now. We're talking about the period from ... up to 2015.

Chairman: Yes, but this was a forward ... projected document that-----

Mr. John Dunne: Yes, no ... no, I understand that.

Chairman: Yes.

Mr. John Dunne: My only recollection of it was that at a particular period in time ... I'm trying to think, it must have been around about 2005-2006, there was a joint ... well, there was a mission of the IDA in the United States aimed at promotion in the financial services sector and the issue of regulation was on the agenda and the way in which that was put to the investors was that this was a fast, efficient, effective type of regulation and so on, which would be appropriate to the innovative type of industries which the IDA wanted to get down into the IFSC but-----

Chairman: Yes.

Mr. John Dunne: -----I don't believe that the IFSC pressures ever affected the issue of regulation.

Chairman: And by your familiarity ... we've had this discussion here as well - I think it was with Mr. Roux from the Central Bank when he was before us recently - where it was discussed that principles-based regulation was a global principle - it wasn't something that was unique to any geographical location in Europe or worldwide. In, kind of, sporting parlance, there was a code for playing football and this was how the game was going to be played on the international stage. However, Ireland's end result of the principles-based regulations process is unique in lots and lots of ways. Was there a time when, to your knowledge, that the presentation of Ireland's interpretation of principles-based regulation ... that there was a different type of interpretation from Ireland if you come here that you will get anywhere else in the developed world?

Mr. John Dunne: No, I don't believe so. I absolutely do not believe so.

Chairman: Okay, thank you. With that said - it's 11.38 a.m. - I propose that we suspend until 11.45 a.m., if that's agreed. And in just suspending the meeting, to remind Mr. Dunne and Mr. Begg that you're both still under oath. You can revert to your own legal people or advisers if they're here with you and I propose that we will return at 11.45 a.m. Is that agreed? Agreed.

Sitting suspended at 11.39 a.m. and resumed at 11.55 a.m.

Chairman: So, I now propose that we go back into public session. Is that agreed? And we complete our engagement with Mr. Begg and Mr. Dunne of today. And in doing so, I'll invite Deputy John Paul Phelan. Deputy Phelan, you've ten minutes.

Deputy John Paul Phelan: Thank you, Chairman. Good afternoon, or good morning, I think, still gentlemen. I only have ten minutes so I'd ask you to be as brief as you can. Firstly ... for you both, briefly, you both subscribed, I think, in your statements to the view that there would have been a soft landing, economically, for the country were it not for economic ... other external economic factors. Do you both still subscribe to the view that Ireland would have had a soft landing were it not for those external factors? Mr. Begg first, please.

Mr. David Begg: Now, I mean, in ... in fact ... if you ... what I was trying to say in 2005, in that speech I made to the conference in UCD, was actually trying to engineer the soft landing ...of saying that "Look, do we want to go for the rate of growth that we have at the moment? You know, is it a mantra, is it something we have to go for at all costs? Or could we not try to target back ... to pare back the rate of growth, to something that would maintain full employment", which would have been around 3%, right. In which case we would lead in, perhaps, to the soft landing. And, similarly, in the submission that I made in 2005 to the review group that the Minister for Finance had set up to look at the tax situation, you know, where we, kind of, identified the property taxes as, essentially, inflating some of the heating that was going on in the economy ... to try to get back ... at those. So that would have been the ideal position to be able to do that. In the end, the point I was making is it might still have been possible to have achieved a soft landing if the international conditions hadn't changed, but we'll never know that really, you know.

Deputy John Paul Phelan: Mr. Dunne?

Mr. John Dunne: Well, I mean, I've had the view right from the very beginning that the Lehman's thing was just an extraordinary event, which nobody anticipated and which had such devastating effects in such short order that it just wiped the board clean of any possibilities that the soft landing - which people were still saying, right through the piece, was going to happen - actually could happen. I don't know whether, you know, if it hadn't ... if Lehman's hadn't occurred, whether we would have got the soft landing or not. I don't know.

Deputy John Paul Phelan: What was the basis of your view that Ireland would have a soft landing? And where were you looking internationally that you felt that in Ireland ... we've heard examples from other witnesses, that the soft landing has almost just been a theoretical thing, that, in practice, hard landings were the order of the day more than soft landings. Where ... where ... what did you base your view on?

Mr. John Dunne: Well, I based it on the continuing assessment from within the bank and from within Irish institutions, like the ESRI, and from the international community, all of whom were saying that Ireland would have a soft landing, that buffers were in place, the end result would be benign.

Deputy John Paul Phelan: Okay. Mr. Begg, do you have ... what was the basis of your soft landing theory as well or was it the same?

Mr. David Begg: Well, as I explained, I was trying to engineer it-----

Deputy John Paul Phelan: Yes. Okay.

Mr. David Begg: -----I didn't necessarily think it would happen by accident if left to its own devices

Deputy John Paul Phelan: Okay. Well, can I then just maybe turn to the issue of groupthink, which was mentioned in several of the reports that have been referenced already. I'm being Devil's advocate slightly, Chairman - I'm sure that you'll correct me if I'm wrong - but for those who might look from the outside at your evidence today, you were two key players at different times in the social partnership process. And with regard to your terminology - your use of language - there might be some marked difference but in terms of your economic outlooks, representing employers and trade unions, there doesn't appear to be the width of a sheet of paper between your views. And you referenced - and, in particular, Mr. Dunne referenced - external and internal organisations and bodies that were talking about the soft landing. Is that not just a classic example that you were part of this groupthink that took over?

Mr. John Dunne: Well, I mean, that's an interesting hypothesis. It's clear that there was groupthink across a wide spectrum of ... of contributors. I'm not sure that was the case in the bank but ... or, indeed, the regulator, but, I think, at the end of the day we were getting a weight of professional advice and that professional advice was being supported all around the place. I wasn't an expert banker and, therefore, I was probably more likely to take the professional view than if I had been a professional banker. You know, as far as I was concerned, that was the professional view and unless somebody was going to challenge it big time, then I was going to accept it.

Deputy John Paul Phelan: Mr. Begg, do you?

Mr. David Begg: Yes, well , you know, I've always had the very consistent view from an economic standpoint and that is that I think it's rather unfortunate that Ireland is so committed to the liberal market economy model. I would have much preferred to see Ireland move closer to a social market economy model on the Scandinavian basis. And that puts me in conflict with a lot of popular views here about taxation, for instance, right, and public services. I ... my view would be that you should have high quality, universally available public services in high growth ... or in a, sort of a, high productivity economy and that these can essentially ensure that. My thinking was influenced very much by a paper that was prepared by two economists at the Swedish LO in the mid-50s, Gösta Rehn and Rudolf Meidner, who came up with this distinct Nordic model, which has been extremely successful and has meant that the Nordic countries have been in the top ten from the point of view of economic efficiency, competitiveness, productivity and social cohesion. And my view is that that is really a much better place for Ireland to be, and you know, I would still try to do everything I could to shift opinion in that particular direction. Now that is not a common view in Ireland.

Deputy John Paul Phelan: Okay, well, that is fair enough. Can I ask you then in respect to your roles on the different boards that we're referring to here, that you were members of, do either of you have ... feel any sense of either collective or individual responsibility for the, what could be termed at least, abject failure in regulation that took place in the banking sector? And not just in terms of the regulator, but Deputy Higgins showed the example that the Central Bank had an overarching responsibility for financial stability, which doesn't seem to have ever been exercised in the period of time that both the regulator and the Central Bank existed. Mr. Dunne might go first.

Mr. John Dunne: I mean, I've made it clear in my statement that, you know, I did the best I could but, at the end of the day, the system failed and I was part of that, so I have to accept that level of responsibility. There's no question.

Deputy John Paul Phelan: Mr. Begg?

Mr. David Begg: Yes, well, I would say, you know, in all of these things I did the best I could, you know. It's possible my best wasn't good enough on particular occasions, but I did the best I could. And I would say in fairness, you know, I didn't make the decision to separate regulation from financial stability; I didn't introduce principles-based regulation; I didn't introduce the Basel II capital requirements directive; I didn't continue property related tax expenditures in the economy; I didn't believe in the Great Moderation; I wasn't a member of the regulatory authority; and I did positively try to maximise attention to the problems of economic growth that I considered to be sustainable; and I did identify the vicious circle in construction and the possibility that it would end in tears. I also, by the way, correctly forecast the impact of the recession when it happened. Now, it will be for another generation of people to judge all of this. I'd say ... the people I worked for ... you know, in my day job, at least were not unhappy with my performance.

Deputy John Paul Phelan: Can I ask you directly Mr. Begg: did the board, the Central Bank board, in your 15 years - particularly I suppose from the period 2002 onwards - have detailed discussions about the expansion in property lending, in particular, the expansion in the loan books of financial institutions?

Mr. David Begg: The board of the bank was concerned certainly about the expansion of the construction sector in the economy. There were different points of view on the board. There was, as I mentioned, I think in response to the Chairman earlier on, one point of view held by somebody, one of the board members who had worked in the property sector all his life and was quite influential, and that view was that like, you know, house prices in Ireland historically have risen and plateaued and risen again when times changed, but they have never collapsed, so it's not part of our DNA, if you like, to have a collapse. Now, at the same time, there was definitely another board member who took a directly contrary point of view and then a range of members who had views, kind of, in between all of that. So, you know, it wouldn't be fair to come to the conclusion, I think, that there was no robust discussion of these problems at the level of the board.

Deputy John Paul Phelan: Okay, just to turn to Mr. Dunne briefly, you said that you were aware of the fact that there were three people within the regulator who were responsible for, I think, it was Bank of Ireland and Anglo, and three more responsible for AIB and Irish Nationwide in terms of direct regulation. You've already stated that you don't like the term "light-touch regulation". How else would you describe the fact that there was only three individuals regulating directly, on a, kind of, micro level, those institutions? What other term could you use to describe it?

Chairman: That question is made, Deputy. I need you to wrap up shortly with Mr. Dunne.

Mr. John Dunne: Sorry?

Deputy John Paul Phelan: He is asking me to wrap up.

Mr. John Dunne: Well, I mean, the answer is principles-based regulation, that's the answer to the question. I don't like the word "light-touch" because I think it diminishes a system which had its merits. "Light-touch" suggests to me that people weren't prepared to engage in their responsibilities.

Deputy John Paul Phelan: You think that three people regulating those groups of two major financial institutions with huge expansions in their loan books in the period that you were on the board of a regulator, you'd think that that doesn't fit the term "light-touch regulation"?

Mr. John Dunne: No, it fits the touch ... principles-based regulation. And you know, the fact of the matter is that in an earlier exchange on this topic in this forum I made the point that the staffing levels within the context of the system were agreed with the staff and signed off with the staff, but subsequently, I also made the point, that they were professionally analysed and they were found to be appropriate to the circumstances of the system that we were regulating by an international firm of consultants who benchmarked our staffing requirements against those internationally.

Deputy John Paul Phelan: Okay-----

Chairman: Thank you very much.

Deputy John Paul Phelan: Can I ask the-----

Chairman: Deputy Murphy will take it.

Deputy Eoghan Murphy: Thank you, Chairman, and thank you both, gentlemen. In relation to the board meetings at the CBFSAI, there'd be discussions before you would take the position to, say, agree a financial stability report or a pre-budget letter. Can you tell me were contrarian views ever expressed and also then how was consensus reached in terms of agreeing a report?

Mr. David Begg: Well ...

Deputy Eoghan Murphy: To you both, please.

Mr. David Begg: Well, yes, there were contrarian views expressed certainly in relation to it. There were a number of board members who had different views and I had different views at times myself, which I've, sort of, said earlier on. But the nature of this was that the financial stability reports were prepared by a ... initially prepared by the Central Bank economist, agreed with the executive people at the level of the regulator, at a, sort of, an interaction, a board established for that purpose, and, after a process of iteration, came to the main board for discussion. The way the main board worked, discussions were held, they were robust discussions, by and large, and then those views were taken on board and fed back into the process again, and finally the report came out. But it didn't, you know what I mean, it didn't go back and forwards to the board, if you know what I mean. It was left with the Governor and the ... well, the Governor, principally, to bring forward the final report.

Deputy Eoghan Murphy: Would either of you have been aware of contrarian views at senior management in the Central Bank not making it ... their way into the boardroom?

Mr. David Begg: No, definitely not.

Mr. John Dunne: No.

Deputy Eoghan Murphy: Would either of you have been aware of research being conducted and then not being included in the first draft, say, of a financial stability report?

Mr. John Dunne: No.

Mr. David Begg: No.

Mr. John Dunne: And I'd have to say that I was surprised at the evidence of an earlier contributor who indicated certain of those issues as taking place. Surprised only because the opportunity was available at the board when he was presenting at the board to indicate reservations which he personally might have had, and they didn't surface at the board.

Deputy Eoghan Murphy: Okay-----

Mr. David Begg: I think the board would have welcomed that kind of input because, you know, you're actually, with subjects as complex as these, hugely dependent on the professional staff that you have to identify all sides of a problem. It strikes me that it must be a little bit like being in government, that a Minister would presumably want to hear all sides of an argument from his officials. So my view is it would have been welcomed by the board and there would have been no downside, as far as the board was concerned, to anybody coming forward with a contrary view.

Deputy Eoghan Murphy: Sorry to go over this again, in the 2007 financial stability report, the view was taken that there would be a soft landing in the economy and Professor Honohan, in his report, wrote that there was no analytical evidence for this conclusion in that report. So can you remember that discussion and how you decided to favour the soft landing for the report?

Mr. John Dunne: Well, I couldn't ... I can't personally remember the discussion at this remove. But I agree fully with David about the robustness of the discussions at the board, there's no question about it, and there were contrarian views amongst the board members. But, like, as in any organisation which I've ever been part, there are different views and the job of the chairman, or whoever's the chief person at that meeting, is to get a consensus, at the end of the day, that the organisation can stand over. And that's what happened.

Deputy Eoghan Murphy: Mr. Begg, did anyone say, "Where's the evidence for this? Where's the evidence in this report for the soft landing?"

Mr. David Begg: Well, I can think of one board member who did at least actually query, you know, the robustness of the financial position of the banks. What I think happened, actually, was this: if you reflect back on that period of time, around 2006 there was a, sort of, a tapering off which appeared to suggest, you know, that the cooling off was actually happening in the economy. There was a lot of concern publicly about this, in political circles and so on, a lot of commentary on it, and then suddenly the whole thing started to rev up again, right. But then, in 2007, it began to taper off again. So the initial, sort of, shock, I suppose, that the construction sector was in cooling was, kind of, assuaged a little bit by the trend ... the second part of that trend. And I think that's what probably gave rise to the assurances about the soft landing or the conviction that the soft landing would actually happen. But I want to be at pains to say that my personal thinking is that this all has to be located in the context of what was the international orthodoxy at the time. And my feeling is - just to finish on this point very quickly - I mean, the epitome of that was Greenspan going before the US congressional committee and saying, “There’s a flaw. I didn’t think there was a flaw, but there is a flaw”. But everybody else was working under the flawed conditions, if you like, and people believed it.

Deputy Eoghan Murphy: Leaving the orthodoxy aside for a moment, in 2006 the financial stability report had a report on overvaluation of house prices. It didn’t feature in the 2007 report. Subsequently, looking back from 2008, they saw that, had it featured it would have showed an over-valuation of more than 30%. So, being involved with the financial stability reports each year, did you not notice in 2007 ... “Where’s this piece of research we normally have and why isn’t it in this year?”, given the kinds of discussions that you were having?

Mr. David Begg: I think that’s a fair enough report, all right, but you could ... you could have inferred, if you like, that the same fundamental conditions existed in 2007 as in ... concerning the over-valuation ... the country-----

Deputy Eoghan Murphy: Concerning the lack of the research in that particular financial stability report?

Mr. David Begg: Yes, but maybe it wouldn’t have revealed very much more, if you know what I mean, about how the ... what the conditions were in the market in 2007. The only changed indicator in 2007 was this apparent moderation in the rate of rise of house prices.

Deputy Eoghan Murphy: I think it was subsequently found that had that research been in the financial stability report, you couldn’t have reached the conclusion of a soft landing. So I don’t think it’s correct to say-----

Mr. David Begg: Well, maybe ... maybe that’s true. I honestly don’t know.

Deputy Eoghan Murphy: Just moving on, Mr. Begg, if I may, you were chairman of the audit committee. How long were you chairperson of that committee?

Mr. David Begg: Off the top of my head, about ten years, I’d say.

Deputy Eoghan Murphy: About ten years, okay. And what exactly did that involve then?

Mr. David Begg: Essentially it involved auditing the internal bank systems for the ... well, a big part of it, for example, would have been the currency centre and the ... you know, there’s a very sensitive area where we were printing money and printing notes and coins and so on. That would have been one part. The other part would have been managing the systems for the ECB, like the target system and the settlement systems that operate. It would have ranged across the range of systems that the bank operated and even down to things like the social clubs and social activities. All of that was ... there was an internal-----

Deputy Eoghan Murphy: Of the Central Bank but not the individual banks?

Mr. David Begg: Pardon?

Deputy Eoghan Murphy: Of the Central Bank but not the individual banks?

Mr. David Begg: Oh yes. Not the individual banks at all, no, no. Actually there was ... the audit process was quite rigorous because we had an internal audit division and we had two auditors - the Comptroller and Auditor General and then the auditor appointed at the request of the ECB.

Deputy Eoghan Murphy: And did that work change at all after the Act of 2003?

Mr. David Begg: No, except that there was a representative of the regulator on the audit committee and the regulator had its own ... as well as the bank's overall audit committee, there was an audit committee for the regulator as well.

Deputy Eoghan Murphy: There was two separate audit committees, one for-----

Mr. David Begg: Yes, but the bank one was the overall audit committee.

Deputy Eoghan Murphy: So as chairperson you had sight, then, as well operationally of the audit of the Financial Regulator.

Mr. David Begg: Yes.

Deputy Eoghan Murphy: Okay. And do you think there were sufficient technical skills in the audit committee to properly do its work?

Mr. David Begg: Well, now ... there were about ten people in the internal audit division ... sorry, I think you're asking me a slightly different ... you're asking me about the committee, I beg your pardon.

Deputy Eoghan Murphy: Yes, about the committee.

Mr. David Begg: I'll answer both, anyway. Well, as far as I know but, I mean, to be fair sure I wasn't an auditor myself, you know. And, you know, the other people ... I don't think we had any actually ... had any accountant on it as such. But we had a strong internal audit division which had about ten people as well as the head of audit. The biggest problem we tended to find there - and it links into earlier questions relating to the regulator that John mentioned - was that systems are extremely important in the Central Bank structure and the IT dimension of that was very, very critical. It was extremely hard, in a tight labour market situation, to recruit people of a high calibre - sufficiently high - to work in that particular area and there was always this concern, even from internal audit, of a slight deficit, you know, that you were never quite caught up with the ideal situation. But, at the same time, it was a strong function ... I'd say stronger than in most enterprises.

Deputy Eoghan Murphy: My final question, if I may, Mr. Begg, is in relation to your oral remarks today. You mentioned social partnership quite a bit.

Mr. David Begg: Yes, but I was only responding to you, you see. Not to you, personally, but-----

Deputy Eoghan Murphy: In your opening statement.

Mr. David Begg: When I ... my original statement to the committee, there was no mention of social partnership because you didn't raise it with me. In fact, I was wondering "Why do these good people want to see me at all?" But then when you produced your document, you know, there's about 20 pages of an IMF report on social partnership, so I felt this is of interest to you, so in that sense I-----

Deputy Eoghan Murphy: When you were coming in - and writing your written statement - to appear and addressing your role as general secretary, it didn't occur to you to address social partnership?

Mr. David Begg: Not at all, because you didn't raise it, you know.

Deputy Eoghan Murphy: But when you were ... you have a section in your written statement talking about your role as general secretary and looking back on the crisis period.

Mr. David Begg: Yes.

Deputy Eoghan Murphy: And even though we've had findings in, for example, the Wright report, saying that social partnership overwhelmed the budgetary process, you didn't think to address that issue in your written statement or to comment on that?

Mr. David Begg: If you had raised it with me, I most certainly would have done, but it didn't seem to me to be germane. Because, quite frankly, I have a difficulty trying to identify a causal relationship between social partnership and the banking crisis. Because, as I said, I mean, Ireland ... you know, if social partnership had an adverse effect, the only area you could see it having an adverse effect in was in relation to fiscal policy. But Ireland didn't have a fiscal crisis, it had a banking crisis.

Deputy Eoghan Murphy: You don't think Ireland had a fiscal crisis?

Mr. David Begg: No, not until after the banking crisis. No.

Deputy Eoghan Murphy: Until after banking crisis. So you don't accept the findings of the Wright report that social partnership overwhelmed the budgetary process?

Mr. David Begg: No, I don't at all, because, quite frankly, what I would have seen was that over the period of five or six years leading up to the financial crisis, Ireland was running a budget surplus every year and, you know, it was quite substantial, I think, up to 2.9% at the end. And there was no adverse effect on that from social partnership that I could see. I did cite - in my supplementary statement - the evidence from Fritz Scharpf from the Cologne Institute, in which he said that in the case of Ireland and Spain, social partnership was a counter, if you like, to the trends that were happening in the economy. It was just that it wasn't a strong enough counter. And I also did indicate-----

Chairman: Time, Deputy.

Mr. David Begg: -----that the ESRI had found, in relation to competitiveness, that it had been extremely helpful to the foreign direct investment sector here.

Chairman: Final supplementary now, Deputy

Deputy Eoghan Murphy: Thank you, We've had admissions from four members of Government, in the committee, that fiscal policies were unsustainable. Do you accept that social partnership played any role in those unsustainable fiscal policies? And also, there's a second question: if you felt that economic growth was an unsustainable house of cards, as you put it, why did you seek and agree wage increases on the back of that unsustainable growth?

Mr. David Begg: Well, in the first case, you know, fiscal policy being unsustainable was not related to social partnership. The unsustainable element of fiscal policy was the extent to which it depended on property transaction taxes, which amounted to, I think, about 13% or 14% of total revenue. In the case of overheating in the economy, the problem ... that didn't relate back to the wage increases *per se* because, as I say, Ireland was an extremely highly productive economy at that time. There were huge gains in product activity over the period from, I think, around 1980 to 2011 ... something like a 280% increase in productivity. There's no difficulty there ... and in ... the level of pay increase that we saw, it was simply keeping abreast of inflation, no more and no less.

Chairman: I need to move on. Deputy McGrath.

Deputy Eoghan Murphy: Thank you, Chair.

Deputy Michael McGrath: Thank you very much, Chair. Mr. Begg and Mr. Dunne, you're very welcome. Mr. Begg, can I start with you and this is an issue Deputy Higgins did touch on. For most of your tenure on the Central Bank board, you were general secretary of congress. During this period, members of affiliated unions would have seen significant benefits from the economic boom. So, to what extent did your role in congress affect your attitudes towards the maintenance of economic growth and its importance in your deliberations as a member of the Central Bank board?

Mr. David Begg: Well, I think, Deputy, it's important just to reflect that actually the wage share of national income over the period from 1990, I think, to 2009, drifted down by about 10% overall. Now, it has also to be said that was in the context of a growing cake, if you like, right. But the share that labour was receiving was not huge. The ... where it might have affected my attitude on the bank, as Deputy Higgins said earlier on, I mean, a leopard doesn't change ... he didn't say that but I say a leopard doesn't change its spots ... that whatever values you have, you don't leave them at the door, when you're going into discussions. From time to time, there were tensions ... I've adverted to that, between myself and members of the bank because I thought, for instance, that they had an undue emphasis at times - I thought they were actually obsessed by the question of the wage share, the wage issue, in competitiveness, for instance, whereas I considered it to be a much more holistic question than that. I can go into that, if you like, in more detail. So, those tensions were there between me and the bank from the other colleagues on the board of the bank from time to time. But, like, in any endeavour, you go in ... I mean, just as in this committee reflects a number of different political points of view-----

Deputy Michael McGrath: Yes.

Mr. David Begg: -----you try to get on together and you try to work for a common result.

Deputy Michael McGrath: Okay. Both of you have raised the issue of the change to the regulatory structure in 2003 and can I put this to you first, Mr. Dunne, given that you served on the board of IFSRA and also the overall Central Bank board as well? Do you accept the overall conclusion that Governor Honohan reached on that issue? He examined the institutional structure and the changes that were made and he said in his conclusion: "Though few would now defend the institutional structure invented for the organisation in 2003, it would be hard to show that its complexity materially contributed to the major failures that occurred." Would you agree with that?

Mr. John Dunne: In part but not in whole. I think that the division in the new set-up created problems which the single structure had avoided and the reinstituted single structure is now avoiding and I think that those problems, which were manifest, I think, fairly shortly after the new body was established didn't help.

Deputy Michael McGrath: Okay. Mr. Begg, do you want to offer a view on it? You've dealt with it in your witness statement as well.

Mr. David Begg: Yes, I mean, I didn't think it was a good idea, quite frankly. I didn't see any particular reason for it. I think it was influenced by a strong emphasis on consumer concerns and in fairness, I suppose, it could be said that there was concerns about some of the things the banks had been doing consumer-wise in the 1990s. I think it was also influenced, though, by an international trend which was extremely liberal in its outlook and I think the Progressive Democrats were the party in power at the time who drove that initiative particularly. So, I didn't see it. I saw certain risks into it because it interdicted the line of sight between the banks' normal function for financial stability and, you know, the prudential situation as far as the banks were concerned and the rest is history, I suppose.

Deputy Michael McGrath: Can I ask, do both of you accept that while principles-led regulation was the orthodoxy of the time, that principles-led regulation could have been more intrusive? We have heard evidence along those lines from Cyril Roux, for example, currently the deputy governor and head of financial supervision, that being principles-led did not necessarily mean light-touch. It could have been more intrusive in terms of approach. Do you accept that, Mr. Dunne?

Mr. John Dunne: Yes, I accept that. But, the system that was practised here, which the regulator to be fair - and remember I'm speaking as somebody who was on both the boards - inherited from the bank was that type of regulation.

Deputy Michael McGrath: So, even before 2003, the regulatory approach was principles-led?

Mr. John Dunne: Yes.

Deputy Michael McGrath: And had been for a number of years?

Mr. John Dunne: Yes.

Deputy Michael McGrath: Okay. Was there ever any suggestion, Mr. Dunne, that there was a lack of powers for the Financial Regulator in his role in terms of supervising the banks and regulating the banks?

Mr. John Dunne: Well, I don't think anybody suggested it from the outside but it's clear in retrospect that, you know, the regulator could have gone back to Government and said "We don't have enough powers and we need to get some more" because clearly that was a feature of the situation. So, I think, there was a recognition within the regulator that new powers would have been helpful but for whatever reason, we didn't pursue it.

Deputy Michael McGrath: I suppose I have to put it to you, the thrust of the evidence so far, on the question of powers, has been that there were sufficient powers and the powers that were available were, generally speaking, not used?

Mr. John Dunne: Well, I mean, that's true up to a point too but there are ... there's an opaqueness around this question. For example, if you take the issue of 100% mortgages. I was always of the view, right from the very beginning, that we didn't have the power to ban 100% mortgages. Now, that view has been challenged in subsequent hindsight discussion. But my view was that if we wanted to ban it, then we really needed to go to the Government to get powers because we didn't have the power to control the development of particular product lines within the banking institutions. Now, we could have got around it. Although, I have to confess, I didn't appreciate this until this inquiry started. We could have got around it by using the consumer code but we didn't think about that at the time. And so that's an example of a power that I believed would have been appropriate but we didn't have. But I think the-----

Deputy Michael McGrath: But it wasn't sought either. It wasn't sought.

Mr. John Dunne: It wasn't sought. But, I think, overall your conclusion is a fair one that we did have powers that we didn't use.

Deputy Michael McGrath: Can I ask you both, Mr. Begg first, in the round and given your knowledge now and the experience that you hold, how do you apportion responsibility for the banking crisis?

Mr. David Begg: Well, first of all there was the international dimension, which was very strong. I think that if, you know, you can't look at this question without looking at that international context and Ireland, as a small open economy attempting to attract in financial services industry or attempting to build a financial services industry, was very, very susceptible to that and was very influenced by it. As John has pointed out earlier on, in the trip that they went on to the United States and the inputs they had from people like Merrill Lynch and so on ... where I remember seeing something where Merrill Lynch had asked the regulator to take the lead in this area of rules-based or, I beg your pardon, the other principles-based regulation. So that is one dimension. I think that-----

Deputy Michael McGrath: Try to give me a hierarchy if you can, in your view, of the relative-----

Mr. David Begg: That's the first one ... that's the highest problem, in my view.

Deputy Michael McGrath: That's the first one ... the international dimension.

Mr. David Begg: I think that internally two institutional decisions that were taken - one to separate the functions that we discussed earlier. Separate the regulation and supervision from the other elements of the Central Bank was the second one. The third one was the adoption of principles-based regulation itself while, as John said, that was a continuation from what had been the case previously, I think, in circumstances post the deregulation of capital markets and the EMU with the enormous change in the financialisation of the global economy-----

Deputy Michael McGrath: Okay.

Mr. David Begg: -----that became a particularly acute problem and the fourth is this business of the financial stability report depending on the situation in the banks being solid and *vice versa*, if you know what I mean.

Deputy Michael McGrath: Okay. That you've given four reasons there now and the actions of the banks in terms of their lending strategy, their concentration in property and construction, hasn't featured in your top four causes of the banking crisis.

Mr. David Begg: Well, I just ... I got to the fourth when you intervened. Well, I mean that clearly-----

Deputy Michael McGrath: Well, I asked it in order of the-----

Mr. David Begg: Yes, yes-----

Deputy Michael McGrath: -----of importance so-----

Mr. David Begg: Yes, yes, I know. I mean that-----

Deputy Michael McGrath: You put the international dimensions-----

Mr. David Begg: Yes, but the international dimensions does-----

Deputy Michael McGrath: -----at number one and not what the banks did themselves-----

Mr. David Begg: -----yes it does affect that though, you know-----

Deputy Michael McGrath: Yes, undoubtedly.

Mr. David Begg: Because, right, the situation in Europe - the availability of huge amounts of money on the interbank markets and also the fact that you had large supplies of money looking for an investment home that this ... the combination of these two factors, you know, played into the bank situation where the bank ... the banks obviously went without or abandoned caution. Or perhaps not abandoned caution so much as felt that they had to have models, business models, which reflected Anglo Irish or reflected Northern Rock or whoever was coming into the market here that, you know, you had very experienced banks, very staid banks, very conservative banks as one would have felt previously-----

Deputy Michael McGrath: Yes.

Mr. David Begg: -----who sort of went hook, line and sinker for this-----

Deputy Michael McGrath: Mr. Dunne-----

Mr. David Begg: -----business model.

Deputy Michael McGrath: -----your assessment of where responsibility rests and-----

Mr. John Dunne: I was hoping that you and David would both leave it at the four because I think there is not the slightest doubt that the prime source was the lending policies adopted by the banks because they had cheap money coming from Europe. But, you know, so ... my list of priorities would be the banks, the auditors, the regulator and the Central Bank, the population in general and, you know, this ... this feeling that we were on a roll and the roll was never going to stop. So, there were societal issues playing into an inappropriate lending policy by the banks and an inadequate regulation by the regulator and the enunciation of the risks by the Central Bank.

Deputy Michael McGrath: Thank you, Mr. Dunne.

Chairman: Thanks very much. We are going to move to wrap things up. Senator O'Keeffe, three minutes.

Senator Susan O'Keeffe: Thanks, Chair. I just have three or four questions, Chair. I know you weren't ... IBEC wasn't ... you were past ... but banks would have been members of IBEC, would they?

Mr. John Dunne: Oh, yes.

Senator Susan O'Keeffe: Yes, okay. Can I ask you, the National Treasury Management Agency made clear to us that they left nobody in any doubt but that they were not, if you like, happy with the state of Irish banks between 2007 and 2008 and didn't place deposits with those banks, unless directly instructed by the Minister. Was that a matter that came to the Central Bank or the Financial Regulator that the NTMA was not putting deposits into Irish Banks ... particularly into Anglo as it was described as a "broken model" by the NTMA?

Mr. John Dunne: Not to my knowledge.

Senator Susan O'Keeffe: It was never raised at the ... at a board meeting?

Mr. John Dunne: Not to my knowledge.

Senator Susan O'Keeffe: Mr. Begg?

Mr. David Begg: No, I don't recall it either.

Senator Susan O'Keeffe: And you weren't aware yourselves that this was happening?

Mr. David Begg: No, I wasn't anyway.

Mr. John Dunne: No, I wasn't, no.

Senator Susan O'Keeffe: Now, Mr. McDonagh in his evidence said when the NTMA became involved in mid September 2008 as the crisis was now becoming a crisis, he said:

> [It was really] it really was a bit mind-boggling, certainly to me and I think certainly ... the same with my colleagues ... that there seemed to be no real knowledge of the banks. There's one or two people on each bank. [This goes back to the financial regulation of the banks.] When I was asking questions we couldn't ... get the information ... the information couldn't be answered.

So he was, if you like, coming in as a ... pretty much as an outsider. Did you have any knowledge that, if you like, if you were to ask any questions of people working in the Financial Regulator's office about the state of the banks that information wasn't forthcoming? Was that anything that you were ever aware of?

Mr. John Dunne: No, it wasn't. The ... there was a prudential report on the banks given to the board ... the authority ... the regulatory authority every month and it ... it seemed to contain the information which you're getting at here and that should have been available to the, the appropriate authorities.

Senator Susan O'Keeffe: Oh, I think it was, he was remarking, Mr. Dunne, that when you asked more questions, he was saying ... he says ... it's his evidence is that there were not sufficient answers. But you are saying that you had prudential reports every month, okay. In October 2008, the public fine of €3.4 million against Quinn Insurance emerged. Was that a matter that was discussed at the board; either of the Central Bank or of ... at the board of the Financial Regulator?

Mr. John Dunne: It was discussed at the regulator, certainly and the bank ... the Central Bank then would have been notified through the ... through the report that the regulator would make every month to the Central Bank.

Senator Susan O'Keeffe: And was the matter of the contracts for difference and the difficulty that that ... that offered, if you like, Anglo Irish Bank ... was that something that was discussed at board level as a particular matter, Mr. Begg?

Mr. David Begg: Yes, it was actually. Yes, we were ... in fairness when that news broke, both in respect of the Anglo Irish Bank and the Quinn Insurance, when that problem arose, that was communicated to the Central Bank at that time. So, you know, we were ... we were quite ... I was certainly quite knowledgeable about what was happening at the time and I remember being a little bit astounded that when, you know, when Mr. Quinn was unwinding his contracts for difference, his 30% or whatever it is, you know, down to a 15% shareholding in the bank, the ... an awful lot of the public commentary at the time was that Mr. Quinn was expressing his great confidence in Anglo Irish Bank-----

Senator Susan O'Keeffe: But just to put it-----

Mr. David Begg: -----rather than trying to get out of-----

Chairman: Senator-----

Senator Susan O'Keeffe: Yes, I just want to-----

Chairman: -----final question-----

Senator Susan O'Keeffe: It's a clarification really, Chair. When you say, ''at that time'', Mr. Begg - I mean are you talking about the time prior to the fine being made public? I'm just wondering in-----

Mr. David Begg: I actually can't remember now when the fine was made public, you know, but from-----

Senator Susan O'Keeffe: October 2008.

Mr. David Begg: Yes, well, it would have been around that time I guess. I mean there was the difficulty with the insurance company and the guarantees it had made and the exposure to the, you know, that had resulted from the reserves of the insurance company essentially having being pledged to two sets of lenders at the same time. And then there was the further evidence that ... that Mr. Quinn had taken a very large share through contracts for difference in Anglo Irish Bank which, which the Anglo Irish Bank people apparently didn't know, or they said they didn't know, at that time and to have that level of exposure, you know, to one shareholder was seen to be, sort of, a very critical risk to have. And the regulator, I know from the reports we got, was actively trying to find ways of unwinding, of getting that down to an acceptable level. So I was aware of all that. I couldn't tell you precisely-----

Senator Susan O'Keeffe: Sorry, Chair, can I just ... I'm sorry-----

Chairman: I need-----

Senator Susan O'Keeffe: -----there's one thing I just can't get to the bottom of here though, in fairness. It's one last question. In the documents we have seen, clearly it was known earlier on before the ... you know, before the ... before October, it was known in the Department of Finance that the money had been used, it was Quinn Insurance money that had been used to unwind the contracts for difference.

Mr. David Begg: Yes-----

Senator Susan O'Keeffe: Is that your ... that's your understanding?

Mr. David Begg: Well, wait ... no, I'm not sure that it ... I can't quite recall that it was Quinn Insurance, I remember Quinn Insurance money had been pledged to one ... to ... like it had been pledged as the reserve for the insurance company but it had also been pledged to a consortium of banks for ... I can't quite remember whether it was to buy ... my recollection was actually that, that Mr. Quinn had borrowed from Anglo Irish to buy the shares. Now, not necessarily his bank but I can't remember-----

Senator Susan O'Keeffe: It says-----

Mr. David Begg: -----precisely.

Senator Susan O'Keeffe: It says at the end that the Financial Regulator was not aware that that money had been used.

Mr. David Begg: Well, it did become aware of it at a particular time. I think around 2008 or thereabouts and it did advise the Central Bank at that time.

Senator Susan O'Keeffe: Mr. Dunne?

Mr. John Dunne: I am struggling to recollect, to be honest with you. I think that the ... I mean, there were clearly lots of discussions about all this before the fine was eventually agreed on.

Senator Susan O'Keeffe: Okay-----

Mr. John Dunne: But I would be, I really would be walking on a bit of ice with my memory if I was to get into the details-----

Chairman: I don't want you to be guessing, Mr. Dunne.

Senator Susan O'Keeffe: No, I don't want you guessing either. Thanks, Chair, thanks for your indulgence.

Chairman: Thank you very much. Deputy Higgins.

Deputy Joe Higgins: Just one question gentlemen. You have been asked and other witnesses about the effect of a relationship of social partnership to the crisis of the banks. Now, social partnership would say that working people represented by their trade unions are supposed to be partners with big business, represented by their organisations and Government. But in relation to that evidence before this inquiry, indicated that one section of the partnership, including banks, developers and big builders speculated on ... hugely on land, profiteered exponentially in housing, for example, at the expense of a supposed second partner, which is ordinary working people and was allowed to do that by the third partner, Government and regulators which legislated and allowed this so-called light-touch regulation. Does the bubble in banking crisis show the social partnership was a fraud in fact?

Mr. David Begg: Well, this won't surprise you as an answer; no.

Mr. John Dunne: And my answer would be; absolutely no.

Deputy Joe Higgins: Well, why didn't ... did it work for the young people who were saddled with 40-year mortgages and are now in negative equity because of the profiteering that went on manifestly and objectively by sections of the industry?

Chairman: Deputy, as we're now over budget, the last question is made Deputy. Mr. Begg, Mr. Dunne?

Mr. John Dunne: I think they're separate issues, to be honest. I think the social partnership issue, as far as business was concerned, and just let me make the point: you keep using the term, Deputy, "big business" when you talk about IBEC. IBEC has a membership right across the board, from people employing two and three people to people employing thousands of people, from people in schools and universities and manufacturing and all sorts of things, so it's not a big business club. It represents the broad spectrum of business. And we would have to say that ... I can only speak up to the period of 2000 but up to that point, I have no doubt that the social partnership process in the round was beneficial to everybody in the country, including employees, people on social welfare benefits, because it raised all the boats around the place, maybe not at the same level but by and large, I've no doubt that for those ... for that period of time it was beneficial across the board.

Mr. David Begg: Sorry.

Chairman: Deputy Higgins?

Mr. David Begg: Now, from my point of view, you know, social partnership was a critical engagement. It's ... it doesn't mean that everybody thinks and acts exactly the same. As I explained earlier on, we were following a model which is prevalent in the small open economies of northern Europe, and which goes back, actually, to the 1930s and it's based on a belief that, look, if you are a small, open economy and you're trying to survive the ravages of international markets, you basically ... the best way to try and do that is to be as flexible as possible, to engage with the economic conditions at the time, with appropriate social protections for the population at large. I would never contend that social partnership reached its apotheosis at any stage while I was there, in the sense of protecting those people. The point you make is quite right, that these conditions regarding housing and so on were very, very difficult, and as a matter of fact, again I refer back to that speech I made in 2008, and I ask you just to have a look at it in close detail again, because it deals with a lot of these questions and it did particularly draw attention to the need to focus on, you know, four or five or six critical objectives that were necessary in order to protect people, affordable housing being one of them. And there's a very strong critique in that speech about the difficulties of trying to make the affordable housing agency work so that ordinary working people who couldn't afford to take part in this property bubble would actually have the opportunity to get a house. And, as I explained earlier on, sure I experienced this myself in my own family, where members of my family had to go living 60 miles away from where they worked and, you know, look, it didn't work, that didn't work, I don't mind admitting that, but we definitely made a strong attempt to make something like that work. And at the end of the day, and this is my last point, Chair, sorry, I'll finish up on it, I won't say another word about this, but going back to the era of young Jim Larkin in 1916, young Jim made a speech at one stage when he was dealing with a considerable amount of wage militancy in the ... in the trade union movement at the time, and he said, as simple as this: "What do we do about poor hospitals? Ask for more wages. What do we do about poor housing? Ask for more wages. What do we do about unemployment? Ask for more wages. What do we do with underemployment? Ask for more wages." He was pointing out that you need a much more holistic approach, including the social wage, to protect people. And that's the difference here we see today. Like, we're now the recipients of a model from Germany, which appears here as hard-nosed neoliberalism. It doesn't appear that way in Germany because it is located in the context of a social market economy in Germany, where German citizens have access to all of these public services at a level that saves them quite a lot on their basic income. So that's what we were trying to do. We never got the model perfect, you know, and probably we won't at this stage, for obvious reasons, but I think it was a good thing to do and it is the right thing to do and as I indicated in my earlier evidence, I believe that's the way the country should go again in the future.

Chairman: Okay, I'm going to bring matters to a conclusion, unless there's any other final comment you like to make by means of closure, Mr. Dunne and Mr. Begg?

Mr. David Begg: No, thank you.

Mr. John Dunne: No, thank you.

Chairman: Okay, thank you. So with that said, I'd like to thank the both of you, Mr. Begg and Mr. Dunne, for your participation today with the inquiry, and your engagement with it. I now formally excuse both witnesses and suspend until our next session, 'til 1.05 p.m. Is that agreed? Agreed.

Sitting suspended at 12.45 p.m. and resumed at 1.19 p.m.

EBS - Mr. Fergus Murphy

Chairman: We'll return to public session. Is that agreed? And the Committee of Inquiry into the Banking Crisis 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? Today we continue our hearings with senior bank executives who had roles during and after the crisis. Our witness this afternoon is Mr. Fergus Murphy, former group chief executive officer at EBS. Fergus Murphy was group chief executive officer at EBS from January 2008 to 2011. He previously held senior positions at ACC Bank and Rabobank. Mr. Murphy is now the director of corporate and institutional banking with the AIB Group. Mr. Murphy, you're very welcome before the committee this afternoon.

Mr. Fergus Murphy: Thank you, Chairman.

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're directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you're entitled thereafter only to qualified privilege in respect of your evidence and you're directed that only evidence connected to 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 mater of the inquiry. The utmost caution should be taken therefore then 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 and 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