

# HOUSES OF THE OIREACHTAS

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

### JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

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*Déardaoin, 23 Iúil 2015*

*Thursday, 23 July 2015*

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The Committee met at 9.00 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**

**Oireachtas - The Taoiseach, Deputy Enda Kenny, and Minister for Jobs, Enterprise and Innovation, Deputy Richard Bruton**

**Chairman:** We have a quorum. The Committee of Inquiry into the Banking Crisis is now in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. We begin today, which is our session one, which is a public hearing with An Taoiseach, Enda Kenny TD and Mr. Richard Bruton TD.

I would like to welcome everyone to today's public hearing of the Joint Committee of Inquiry into the Banking Crisis. Our witnesses today are An Taoiseach, Enda Kenny TD, and Mr. Richard Bruton TD. Gentlemen, you're both welcome before the inquiry this morning.

Today, the inquiry will focus upon the roles of the Oireachtas and the effectiveness of the Oireachtas oversight of the Government in the build-up to the crisis and in responding to the crisis. In particular, our focus will be on three lines of inquiry: the effectiveness of the Oireachtas in scrutinising public policy on the banking sector and the economy, the analysis of the key drivers for budget policy and the appropriateness of the relationships between the Government, the Oireachtas, the banking sector and the property sector.

The Taoiseach and Minister Bruton are, therefore, appearing before the inquiry today in the context of their respective roles as leader of Fine Gael, while in opposition, and as the Fine Gael spokesperson on finance, while in opposition.

In normal proceedings when a witness comes before the inquiry, I read out privilege to the witness but as both our witnesses today are actually Members of the House, they effectively are and categorically are already covered by witness, so I don't have to extend that right as I usually would. But I would say that you are directed by the Chairperson this morning and you are directed to only give evidence connected with the subject matter of these proceedings, and as to be given.

I would remind members and those present that are currently criminal proceedings ongoing and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right and members of the public and journalists are reminded that these documents are confidential and should not publish any of the documents so displayed.

The witnesses has been directed to attend this meeting of the Joint Committee of Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee and will be relied upon in questioning and form part of the evidence of the inquiry. And if I could now ask the clerk to administer the oath to both of you, please.

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

The Taoiseach, Deputy Enda Kenny.

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Minister for Jobs, Enterprise and Innovation, Deputy Richard Bruton.

**Chairman:** Thank you. So once again, An Taoiseach and Minister Bruton, if I can invite you to make your opening remarks and can I invite you, An Taoiseach, to make your opening remarks to the committee, please.

**The Taoiseach:** Go raibh maith agat a Chathaoirligh. Tá mé buíoch díot as ucht an cuireadh teacht anseo agus tá mé sásta a bheith ag freastal ar an ... ag an chomhcoiste. I am pleased to appear before the Joint Committee of Inquiry into the Banking Crisis following the direction, which was given pursuant to section 67 of the House of the Oireachtas (Inquiries, Privileges and Procedures) Act 2013, by you as Chairman. We would hope that the inquiry can generate new insights into the cause of the banking crash and related collapse, that help policy-makers ensure that a mistake and mistakes made at that time are never again repeated.

I've been asked to appear here in my capacity as leader of Fine Gael, between 2002 and 2007, specifically in relation to the areas that you've mentioned, the effectiveness of the Oireachtas in scrutinising public policy on the banking sector and on the economy. Secondly, analysis of the main drivers for budgetary policy and thirdly, the appropriateness of the relationships between Government, the Oireachtas, the banking and the property sector, as you've outlined, Chairman.

Prior to my election as leader of Fine Gael in 2002, Fine Gael had been in government previous to that, between 1994 and 1997, during which time I served as Minister for Tourism and Trade. As a Government ... that Government, comprised of three parties, secured modest public expenditure growth, budgeted for the first Government surplus in a generation and delivered a rapid reduction in Government debt, from 84% of GNP in 1994 down 20% to 64% of GNP in 1997. Obviously, at that time the Government secured Ireland's entry into economic and monetary union and the adoption of the euro as our currency. Economic growth averaged over 7% per year, driven primarily by a very strong performance in exports, which rose to 73% of our GDP - which was an exceptionally high proportion by any international standards. That Government maintained a focus on manufacturing, on exports and on cost control in all areas and between '93 and '97, inflation averaged approximately 2%, which was consistent with the maintenance of international competitiveness - which is so important. In the 1990s, this country doubled its share of the world export market and foreign direct investment flows into Ireland increased significantly.

When the Government changed in 1997, we passed on an economy in which rapid growth had been underpinned by sound public finances, strong productivity, employment growth and a vibrant export-orientated industrial base and unemployment had dropped to below 9%. We met all those necessary economic conditions to adopt the euro, which was a new, strong currency ... a stable currency, with low interest rates to be used by ... eventually by over 500 million people. Ireland looked forward to building a more competitive, inclusive, innovative economy as a platform for long-term prosperity, stability and, as a consequence, social cohesion.

So following the completion of the EMU and the formal circulation of the euro in 2001, the underlying dynamics of the Irish economy shifted dramatically ... dramatically in the following decade. Particularly in the period 2002 to 2007 and particularly with regard to the changed contribution to Irish economic growth from exports and domestic spending. Very important in that was the significant tax incentives that were introduced and subsequently extended beyond the lifespan originally agreed for property investment, things like multi-story car parks, student accommodation, buildings used for third level education, hotels, holiday camps, holiday cottages, rural-urban renewal park-and-ride facilities, living over the shop, nursing homes, private

hospitals, convalescent facilities, sports injuries clinics and child care facilities and so on. All of these diluted the previous policy bias in favour of manufacturing and exporting activities. Public spending became a major driver of economic growth, increasing by an astonishing €23 billion between 2002 and 2007. The rate of growth that averaged 10% per year and credit conditions, particularly for mortgages ... they also eased as banks began to borrow more cheaply from abroad under EMU rules. And there were no measures taken either by the national European authorities to impose appropriate lending rules to protect economic stability generally and young families buying their first homes in particular. Household borrowing, as the inquiry will be aware, more than doubled between 2003 and 2007, with this country, Ireland, becoming the second most indebted country in the eurozone by 2007.

Ireland's current account balance - the difference between foreign earnings and foreign expenditure - went from a surplus of €1.9 billion to a deficit of €10.1 billion by 2007 as Irish households began to spend far more than they were earning. Our share of world trade began to decline significantly from 2002 as domestic cost inflation accelerated, with the loss of market share most acute in the manufacturing sector. And from 2000 onwards, most new Irish jobs came from domestic as opposed to exporting sectors, particularly the public sector and construction. Manufacturing and agriculture lost almost 50,000 jobs between 2000 and 2006. And by 2004 the numbers of people working in the construction sector overtook for the first time the numbers of people working in the manufacturing sector, and by 2006 the percentage of the workforce working in the construction sector was actually higher than any other industrialised country. So by 2007 you had an uncompetitive, bloated, over-borrowed and distorted Irish economy had been left at the mercy of subsequent international events, without the safeguards, institutions and mindset that were needed to survive and to prosper as a small, open economy within a changed euro area. By this point, the economic costs of the banking and wider collapse had already been incurred, even if the true scale of that economic disaster would take several more years to fully reveal itself.

So as is evident from the key speeches and policy documents dating from this period, under my own leadership, our party, the Fine Gael Party, which was the main Opposition party June 2002 to 2007, opposed the main strands of Government economic policy mentioned already, and our Dáil Members voted against the passage of every budget as a consequence. Notable components of our economic policy evidenced from this period were: our opposition as a party to the Government's changes to the structures for financial regulation introduced in 2002; our warnings to the then Government regarding the deterioration in the country's international competitiveness, and, in particular, the rapid price and rapid cost escalation taking place in the closed sectors of our economy; our campaign which we called, "Rip Off Ireland", at the time highlighted the growing divergence in price and cost levels for consumers and businesses between Ireland and our trading partners; we had regular demands for proper cost-benefit analysis to be applied to the proliferation of tax shelters and incentives, particularly for the property sector; and our campaigns to highlight the scale of Government waste of taxpayers' money as public expenditure escalated very rapidly, most notably in our opposition to the Government's decentralisation plan. The "Buck Stops Here" campaign set out by Fine Gael's proposals for securing better value for the taxpayer in the delivery of public services and infrastructure spoke for itself; our critique of the entire budgetary process, and the lack of opportunity for the Oireachtas to properly scrutinise and assess the tax and spending options available to the Government were a very sore point with us; our opposition to the Government's public sector benchmarking pay deals, reflecting the lack of transparency and the failure to link the deals to genuine changes in work practices and improvements in productivity.

So a generalised critique of economic policy by our party during this period was that the then Government was abandoning the competitive, export-oriented, flexible economic model needed to prosper inside the economic and monetary union, and that had been bequeathed to it by the previous Fine Gael-led Government. And that was an economic model built on sound public finances, high productivity, strong policy support for foreign direct investment and the traded sectors of the economy.

The ability of the Oireachtas to scrutinise all of these things was hampered by the bypassing of public representatives as a result of the dominance of social partnership, where all these decisions were made away from the Oireachtas. Government choices in all key policy areas were removed from any kind of scrutiny. The absence at that time of a clear, national, statutory fiscal framework and expenditure rule to ensure sustainable management of the public finances, and the absence of an independent watchdog to police management of the public finances and to highlight any risks that were there. The absence of any requirement at that time to conduct and publish cost benefit analysis of tax shelters and major infrastructure projects, and to subject all major expenditure programmes to regular review; we had overruns on a regular basis.

Restrictions that were introduced in the Freedom of Information Act. So total public spending during the 2002-2007 period increased by €23 billion. The average annual growth rate, at just under 10% per year, was roughly twice the underlying potential growth rate of the economy. And, therefore, the disastrous impact on the underlying health of the public finances was camouflaged by the temporary and unsustainable surge in transaction tax receipts from the credit fuelled construction and property bubbles. For the main, social, political and economic drivers of the growth in Government expenditure were the genuine need to increase investment level in physical infrastructure to address capacity constraints in the Irish economy - we've mentioned some of these - and to support regional development to keep the economy moving throughout the entire country, though it was even clear then that much of the investment was being wasted because of the absence of public sector procurement and project management expertise. Secondly, the need for public sector salaries to chase the rising cost of living, which in turn reflected the uncompetitive and the closed nature of many sectors of the Irish economy, as well as the rising cost of public services. And those rising costs of the public service should of course have been mitigated by a much stronger drive to secure public sector efficiencies, particularly in the health service and the amalgamation of the health boards into the HSE. That opportunity was lost as a result of the Government's public sector pay benchmarking deals. The doubling of the social welfare budget during 2001 and 2007, at a time of rapidly rising employment, and while there was a genuine need to reduce poverty among vulnerable groups like the elderly, children, the disabled and so on, the rapid rise in payments to working age adults reflected the complete absence of activation reforms that were needed to lower the exceptional rate of jobless households in Ireland, even at a time when the country was allegedly enjoying full employment. The absence at that time of a clear national strategy fiscal framework and expenditure rules to ensure sustainable management of the public finances and the absence of an independent watchdog to police management of the public finances and highlight risks. If the expenditure rule enacted by the current Government, which caps expenditure growth of the underlying potential growth rate of the economy had been adhered to in that period, then spending growth would have been less than half of the 130% increase actually incurred.

Then there was the political cycle unconstrained by any independently-policed set of credible fiscal rules. Budgetary policy during that period was as a result driven by the needs of the electoral rather than the economic cycle. Public spending without any reform increased rapidly up to the 2002 election. Voted spending was up by 21% in 2001, 14% in 2002 and the lead into

the 2007 election, up by 13% in 2007. So not only would tighter management of public spending during this period have helped moderate economic overheating at a time of growing risk, it would also have helped to leave the public finances in a much stronger position to protect living standards and the economy from the effects of the property bust and collapse in the construction sector. It has of course been documented that the Fine Gael Party in the 2007 election adopted broadly similar assumptions as the then Government about economic growth, about tax receipts, about public spending over the subsequent five-year Dáil term. These assumptions were drawn from the contemporaneous projections by the Department of Finance and by the Economic and Social Research Institute and our assessment at the time was that these projections were credible on the basis of a steady managed transition back to the competitive export-orientated economic model that drove Ireland's strong and sustainable recovery during the 1990s.

It has been alleged, Chairman, that a relatively small clique of bankers and property owners were able to bring influence on policy-making at that time to secure taxpayer support to favoured sectors and to favoured institutions. This is a matter of public interest for the inquiry to pursue and obviously you will make your own findings. Whatever the truth of the allegations, it is clear that there were features of Irish politics and Irish policy-making system at that time that left it vulnerable to such perceptions. Things like the ability of the Ministers for Finance to introduce or extend tax breaks for favourite sectors of the economy, particularly the property and construction sectors, without published detailed assessments by the Department of Finance or scrutiny indeed by the Oireachtas.

The excessively close relationship between the Central Bank and the Department of Finance at that time and between the Financial Regulator and the institutions that it was charged with regulating. The ambiguity between the relative roles of the Central Bank and the Financial Services Regulatory Authority, when it came to policing the stability of the banking system and protecting consumers and depositors, the corporate funding of political parties to varying degrees during this period, the dilution by the then Government of the Freedom of Information Act, the absence of clear enforceable rules regarding the jobs that could be taken up in the private sector by former Ministers, advisers and civil servants and the absence of any institution to police the resulting conflicts of interest that arose. The lack of transparency and rules regarding the lobbying of public officials by special interest groups, the absence of effective planning regulation at that time and the absence of structured institutionalised national risk assessment processes. So in conclusion, by meeting all of the economic conditions needed in 1997 to adopt a new strong and stable currency with the low interest rates used by the people of the European Union, the Irish people dreamed of building a more competitive, globalised and innovative economy as a platform for long-term prosperity, for stability and for social cohesion. For hundreds of thousands of families in this country, their dreams turned into a complete nightmare as boom and bust and a stability was replaced by a policy of recklessness and regulatory failures.

To be sure, design flaws that existed in the euro architecture as a whole contributed to this crisis, both here and in the eurozone, and these flaws are gradually being repaired, but there are still serious challenges up ahead. But the lion's share of the damage, Chairman, was done to the Irish economy was the fault of domestic economic and financial mismanagement.

We have learned the hard way that being part of the euro presents, not just opportunities but huge domestic challenges. The need for more effective regulation of the financial system, for greater budgetary discipline, for more responsible and transparent politics, and for relentless pursuit of cost reductions, innovation and product and labour market flexibility so as to main-

tain our competitiveness in the absence of any control over our exchange rate. So having failed these challenges in the first 15 years of our euro membership, our economic and political institutions are now being renewed and being reformed so that the euro can once become a source of stability, of prosperity, and, indeed, of hope, for the Irish people. Thank you, Chairman.

**Chairman:** Thank you very much. Minister Bruton.

**Minister for Jobs, Enterprise and Innovation (Deputy Richard Bruton):** Well, thanks very much, Chathaoirligh. And, first of all, can I just thank you for the invitation, and thank your members for, I mean, what is a truly enormous amount of work, which your members on the committee and you on the Chair are putting into this. I suppose just a few high level things. I think it's always been Fine Gael's view that to deliver enduring growth and living standards in a small, open economy like ours, it has to be built on two basic foundations. One is the foundation of enterprise, innovation and exports; that's the essence of a small trading economy, and the second is a smart state, that is alert, efficient, that's strategic in the way it delivers. And that became even more important when we joined the single currency because we were committing to a hard currency regime. We were going shoulder to shoulder with, you know, really strong economies like Germany.

It's my belief, very strongly, that, you know ... and, indeed, Fine Gael's belief, that the Irish economic crash, it wasn't a result of a tsunami way out in the ocean that swept away a whole bunch of very sustainable and clever economic policies, that the fault lines that made Ireland so vulnerable in those years had developed from bad policy over an extended period of time, and that far from building on enterprise, innovation and exports, economic success had come from speculation, property and debt. That was the contrast. That was the flaw, in the ... if you like, in the underlying, real economy. It was also was undermined, in my belief, by, you know, a State that had become sluggish, wasteful, self-indulgent, in the way it approached its spending and its delivery, and the challenge of public service reform.

I think if you look at the history of this period, I mean, Fine Gael's approach when we were in government with Labour in '94 to 97 was very clear. We had that strong export-driven growth. It was very solid management of the public finances, and that was continued, in my belief, between 1997 and 2000. But as the general election of ... approached, 2001 and 2002 saw the abandonment of a lot of that prudence. And the ... we, in Fine Gael, you know, consistently opposed the bad policy decisions that was building up those fault lines in the economy. And they were ... I'll just isolate four areas where I think it's, you know ... the biggest mistakes were made. One was around sound budgets. You know, as I say, it was abandoned in 2001 and 2002. Spending growth in those two years was something like 35% - extraordinary - way out of line with the growth and the underlying growth in the economy. And we warned Government of that consistently. We warned of the growing and precarious reliance on the construction sector. Towards the latter part of that period, 2006-2007, 25% of Government revenue was coming from construction, so 25% of the cost of running our hospitals, our schools, our gardaí, and so on was coming from the construction sector. That just wasn't a sustainable approach. And we demanded consistently reform in the way budgets were put together, the, sort of, way in which budgets were put together, where there was no proper scrutiny. The best example, in my view, is to be seen in the lack of scrutiny of tax breaks .. that were ... billions of euros of tax breaks were given out without any scrutiny. A big, massive decision like decentralisation was introduced without the proposal even circulating among Government Departments where it could have been scrutinised. You know, the approach to budgeting was wholly wrong and it produced some very bad, imbalanced outputs.

## NEXUS PHASE

The strong export performance is the second thing I would single out. That was consistently undermined and we warned consistently of the inflation, the erosion of the competitiveness of our economy by inflation in what economists would call the sheltered sector of the economy, areas regulated by Government or that weren't open to competition, at a time when exporters were facing really tough conditions in the eurozone markets. You know, export prices were generally falling, while this huge growth in domestic prices was undermining our competitiveness. And I think most ... it was most vividly illustrated, and I repeatedly drew that illustration, the growth in agency-supported employment, which is the ... you know, supported by IDA and Enterprise Ireland, they're the heart of our exporting strategy. In those early years, '94 to 2000, they grew by over 17,000 per year, extra people working in the export-oriented sector. That collapsed by 90% in the second period, between 2001 and 2007, so you ... it dropped back to just ... under 2,000. That was the imbalance that was growing. Those are the core of a small, open, trading economy, these companies that are out there winning you new markets and, you know, that was a really damaging element.

The other element was smart spending and, you know, we, in Fine Gael, published numerous reports, like Who Cares?, The Buck Stops Here, focusing in on the massive growth, which I think it had been 133% growth in spending in those short five or six years, just wasn't delivering value for money and you saw poor delivery on fancy plans, you know, plans, like decentralisation ... announced. At the end of its period, it delivered 10% of what it was supposed to. You know, fancy plans on health not delivering. You know, big spending increases but no one held accountable for the delivery and we very strongly, you know, drove for the need for public service reform and that was ... there's no doubt that the drive for public service reform was held back by the then social partnership arrangements, which prevented, you know, delivery of reform.

The fourth area I'd point out is robust regulation and we, back in 2002, when the regulatory structure was being put in place, we opposed that, and it's worth checking the record and going back, we opposed that at Second Stage for the very ... and we set out the reasons: because there had not been an examination of whether our regulatory system was fit for purpose. We had come through a period when you'd seen the Enrons and various breakdowns in financial oversight and we were putting in place a structure that was just simply putting a big bulldog clip around everything that was being done, no scrutiny of the underlying systems, and that was being rammed through and that was a wholly wrong approach. And, I think, right through that period I think we continued to pursue this inadequate oversight of banking. We also pursued this ... the failure to implement the recommendations of the Competition Authority, which was another area of smart regulation that was not being delivered.

I think the sad part of this was that the property boom papered over the vulnerabilities that were building up in our economy. You know, they provided employment that masked the loss of jobs in the export centres ... sectors. They provided tax revenue that masked the fact that they were unsustainable. Those tax revenues were built by young people taking out large mortgages, paying high elements of tax on housing and that's where the funding for a lot of the growth in spending was occurring. It was never a sustainable basis and I think, you know, Fine Gael had always a different approach to the then Government and, you know, the challenge for us then was how to manage those vulnerabilities and the core of our approach, as we approached the 2007 election, was to deliver on that ... this strategy of reverting to one built on enterprise, on innovation, on exports, on sound spending, and that has been a consistent hallmark of the approach we've taken. You can see it in '94 to '97, the critique of policy that we outlined all through those years and again in government in 2011 to 2015. Those, you know, sound bases of



growing the basis of a sustainable, small economy that can grow living standards for everyone has been at the heart of our approach. And, you know, I think we have to get back and that's what we have done in the last number of years, to build enduring growth in living standards by continually reinventing our competitive edge, by disciplining public policy, by evaluation and accountability in what we do. And that, I think, has been characterised, the approach we took throughout this period.

**Chairman:** Thank you very much, Mr. Bruton. So I now begin with questioning, and, in doing so, I'll invite our first questioner this morning. It's Deputy Pearse Doherty. Deputy, you have 15 minutes.

**Deputy Pearse Doherty:** Go raibh maith agat, a Chathaoirligh, agus fáilte roimh an Taoiseach agus an Aire chuig an coiste fiosrúcháin. Mr. Kenny, can I start with you in relation to ... one of the key criticisms of Government policy during the years 2002 to 2007 which has emerged during this inquiry, was the narrowing of the tax base and increasing dependence on transitional taxes. The Fine Gael manifesto in 2007 also commits to, "Cutting income taxes for all taxpayers and keep the low rates of corporation tax and capital gains tax". So, with that in mind, would these commitments not have further eroded the tax base? And what policies, if any, did Fine Gael have to broaden the tax base to provide a more stable revenues for government? And the manifesto is on the screen for your assistance.

**The Taoiseach:** Yes. Obviously, I've read it. Well, your question is about the stability of the public finances and I think it's a very relevant question. I make the point that we've always believed in sound public finances together with an unrelenting focus on national competitiveness, that these are the conditions that would apply for, you know, lower interest rates, high level of investment and, as a consequence, strong economic and employment growth. So, back in the period when my party was in government in '94-'97, I recall that was my first senior Ministry in trade and tourism. And the emphasis, really, was on being lean and competitive and, as a consequence, there were up to 1,000 jobs a week being created in terms of foreign direct investment-----

**Chairman:** I need to move here-----

**Deputy Pearse Doherty:** Just bear with me one second because we are on time restriction here and this ... there's a specific question in relation to the Fine Gael manifesto of 2007 and the question is: the commitments that you were giving to cut tax, income tax, for all taxpayers and to keep capital gains tax down at the current levels.

**The Taoiseach:** Yes.

**Deputy Pearse Doherty:** How ... would that not have eroded the tax base further? And what policies did your party have at that time to broaden the tax base - if any?

**The Taoiseach:** Well, I just want to make the point here that the trend through from the period in government through opposition to the ... to our current position in government, stands as a principle for competitiveness, low interest rates, strong economic performance. In the 2007 election, Fine Gael actually adopted a joint economic and fiscal programme with the Labour Party, and that meant that we'd keep our 12.5% corporation tax rate, that we'd reduce the standard rate of income tax from 20% to 18%, as well as other tax reforms to support one income families and to improve the design of the stamp duty regime with particular reference for first-time buyers. That was because we believe that keeping taxes low on work and invest-

ment, combined with proper regulation and a competition reforms to improve the country's cost competitiveness, was a core plank of our plan to transition the economy back towards the export-led model that we passed on in 1997.

Obviously, we also committed in 2007 to keeping the public finances in surplus in general government terms and, specifically, we made it clear that all our commitments on both the spending and on the tax side were subject to the overall riding commitment to adhere to the rules of the Stability and Growth Pact. So those commitments, Deputy, on tax and spending were consistent on the basis of the growth forecasts that were available at the time, both from the ESRI and from the Department of Finance, which were forecasting growth average of about 4%, between the period 2008 to 2012. Obviously, we understood quite clearly that level of growth couldn't be achieved unless the competitiveness of the economy was restored. So, like the huge loss of competitiveness in there during 2002 to 2007, together with Government waste on public spending, was a central theme of our critique. So-----

**Deputy Pearse Doherty:** Sorry, Mr. Kenny, I -----

**The Taoiseach:** So in respect of the-----

**Deputy Pearse Doherty:** Can I just-----

**The Taoiseach:** In respect of the-----

**Deputy Pearse Doherty:** Can I just interrupt you .... we're four minutes into this question, I need an answer in terms of your policy commitments and there's two specific questions. It is, would the policy commitments of Fine Gael have further eroded the tax base? And what policies, if any, did Fine Gael-----

**The Taoiseach:** Yes.

**Deputy Pearse Doherty:** -----have to broaden the tax base to provide-----

**The Taoiseach:** Well-----

**Deputy Pearse Doherty:** -----more stable revenues-----

**The Taoiseach:** Yes, as I-----

**Deputy Pearse Doherty:** -----for government?

**The Taoiseach:** Yes, as I said to you, we ... the commitments on tax and spending that we set out in that manifesto were consistent with the projections on the figures from the Department of Finance and from the ESRI and we were very clear that the levels of growth that were forecast in there of 4% could only be achieved if you had strong oversight and a really strong competitive element to our economy. And those tax positions, to retain the corporation tax of 12.5%, to reduce the standard rate from 20% to 18%, as well as a number of other reforms that I've mentioned - stamp duty and one-parent families - were entirely consistent with that model and, obviously, Fine Gael and Labour put together a joint fiscal document in that regard.

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

**The Taoiseach:** So-----

**Deputy Pearse Doherty:** Now, would you appreciate answering my question, which is the

policy commitments and not the consistency of your policies, but the policy commitments and not the projections of the ESRI, but your policy commitments to reduce income tax for everybody and to keep tax levels at the current ... in terms of capital gains tax and corporation tax, would that not have eroded the tax base?

**The Taoiseach:** The point ... I've said to you three times now, is that we were, as an Opposition party, entirely consistent in accepting the projections from the ESRI and from the Department of Finance in respect of their growth figures but that that should be based on the element of competition and the tax position that we set out-----

**Chairman:** Okay, Taoiseach-----

**The Taoiseach:** -----of a reduction from 20% to 18% and of the corporation tax rate was designed to get our economy back to a competitive export-orientated model that we'd passed on. There were elements of that that we considered important.

**Chairman:** Okay. Can you just hold the clock a second there? I just need to come in for a moment here, Taoiseach. The question the Deputy is answering is a micro exercise of the political manifesto of the Fine Gael Party at that time and the question that is being put is the specific measures as opposed to the macro general issues. So ideas such as 18% ... reductions in taxation means a loss of revenue to the Exchequer. That has to be met with compensation in public expenditure and addresses like that. So if I could assist the member in his questioning to you, it would be specifics with regard to micro policy measures as opposed to the macro general intent of the manifesto. Back to yourself, Deputy Doherty.

**Deputy Pearse Doherty:** Okay.

**The Taoiseach:** Well, I might just say, for your information, Chairman, we've been very consistent here that we have never supported increases in taxation where they would impact on work and job opportunities and that's been translated from '97 right through our Opposition policies from 2002 to 2007 and now again in government.

**Chairman:** Okay.

**The Taoiseach:** Sorry, Deputy.

**Chairman:** Deputy Doherty, you've possession again.

**Deputy Pearse Doherty:** Okay, I'm moving on. I'm still no wiser whether you believe that your commitments would have further eroded the tax base-----

**The Taoiseach:** No, I don't.

**Deputy Pearse Doherty:** -----and what policies that you had at that time to broaden the tax base. But time is of the essence. During your time in opposition, did you actively seek views and opinions from banks, property developers or their trade bodies in order to develop property strategy, Mr. Kenny? And how did you ensure that policies were developed in a way which balanced the needs of all stakeholders?

**The Taoiseach:** Well, you'll recall that in 2002, Fine Gael had a very difficult election. I think I had ... I think it was 30 Deputies I had at the time. Obviously, to rebuild a party nationally takes a great deal of time and effort. So in the presentation and the preparation of programmes or proposals or issues for the Dáil and for the Oireachtas, no more than any other

party, Fine Gael would consult with different groups and organisations and people around the country to canvassed ... you know, canvass views from far and wide. But, obviously, the political test whether those ... whether interest groups that meet with the political process had any sway in their individual interests are something that interested me in the sense of the greater good. I have to say that while you come across occasionally people who've a very specific focused interest group from their own agenda, it played no part in Fine Gael's wider interest. So our ... our ... you know, we had a critique year after year about what was happening in terms of the housing sector, what was happening in terms of the whole social partnership area, where year after year, the Oireachtas was completely bypassed and decisions were made away from the Oireachtas in terms of the social partnership decisions that were made by Ministers and no reference, good, bad or indifferent, to the Houses of the Oireachtas. In addition to that, you had the issue of benchmarking, to which we objected very strongly-----

**Deputy Pearse Doherty:** Well, outside of the policy-----

**The Taoiseach:** -----and opposed those increases.

**Deputy Pearse Doherty:** Again, just coming back to the question again. The question was: did you actively seek the views and opinions of banks, property developers or other trade bodies? Is that a "Yes", just ... or a "No"?

**The Taoiseach:** Yes. My ... I wouldn't have had meetings with the governors of banks or directors of banks. My spokesman on finance at the time was Richard Bruton. Obviously, he would have met with different elements of the financial sector in the preparation of Fine Gael documents from our point of view.

**Deputy Pearse Doherty:** Okay.

**The Taoiseach:** But I wouldn't have been personally, actively seeking out ... our decisions, Deputy, would have been made by the Front Bench of the party and the parliamentary party in its entirety on those issues.

**Deputy Pearse Doherty:** Okay. Okay. Mr. Kenny, I'd like to explore the conversations you had with Matt Moran, the chief financial officer of Anglo Irish Bank, a senior figure in that bank. It was reported in the *Sunday Independent* on 21 July 2013 by journalists, Tom Lyons and Daniel McConnell-----

**Chairman:** What meeting are you talking about there, Deputy, now?

**Deputy Pearse Doherty:** This is in relation to July ... it's in relation to just after the guarantee. It's in the period of opposition.

**Chairman:** Okay.

**Deputy Pearse Doherty:** Oh, it's reported at a later stage.

**Chairman:** Is the Taoiseach familiar with the ... maybe if-----

**The Taoiseach:** I know the reference he's making-----

**Chairman:** Okay.

**The Taoiseach:** -----but I don't have the paper in front of me that you're talking about.

**Deputy Pearse Doherty:** Yes, well, I'll ask the question then-----

**Chairman:** Okay.

**Deputy Pearse Doherty:** -----and you may be able to respond. That article said that you rang Mr. Moran twice on 17 and 18 November 2008 "to brief him on both Fine Gael and the then Fianna Fail-led government strategy". Mr. Kenny, can you confirm or not to the inquiry as to whether these conversations took place? What was the purpose of these conversations, if they did take place? Who initiated the conversations? And what were discussed?

**The Taoiseach:** I recall what you're talking about. I attended at a meeting with the principals of Anglo Irish Bank in their headquarters prior to the crash and did so with Deputy Bruton and a number of others from the Fine Gael Party. And there was a-----

**Deputy Pearse Doherty:** What timeframe is prior to the crash? Just to-----

**Chairman:** I'll allow him to answer and I'll bring you back in, Deputy.

**The Taoiseach:** I don't have the ... I can follow up with the exact date-----

**Deputy Pearse Doherty:** Okay.

**The Taoiseach:** -----for you but I think it was 2008, Deputy. And there was a presentation given there by a senior member of Anglo about the structure of their bank and the way that loans were approved and mortgages were approved and that this was a very stable, strongly performing bank and all of that. The Mr. Moran you refer to was at that meeting. I didn't speak to him at that meeting because the presentation was done by the principal ... by one of the principals there. Mr. Moran is from Castlebar. I wouldn't have known him other than to see him over the years as a younger person. But his brother did say to me that he wanted to say something to me. And for that reason, I would have made contact with him. I think he was abroad at the time. I don't accept the article that you refer to or the truth of that because I only ... I made a call because I was asked to make a call, that he had something to say to me-----

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

**The Taoiseach:** -----in any event, I had no conversation of any substance with Mr. Moran.

**Deputy Pearse Doherty:** Was it one call or two calls? The article says it was twice.

**The Taoiseach:** Well, it may have ... it may have been two. I can't-----

**Deputy Pearse Doherty:** Okay.

**The Taoiseach:** -----confirm that to you. I may have made a call and ... that he wasn't there or whatever.

**Deputy Pearse Doherty:** Okay. Mr. Kenny, Mr. Moran, in the article continues to talk to say that Mr. Moran in an e-mail to David Drumm said ... and, again I'm quoting from the paper. It says, "Enda says we are to be an 'offshoot' of [Bank of Ireland]." Did you inform Mr. Moran that this was-----

**The Taoiseach:** No, I have no recollection of informing Mr. Moran of anything of substance in so far as either Fine Gael's propositions or whatever else was going on.

**Deputy Pearse Doherty:** The article also says ... and some of this is coming from e-mails between the senior executives of Anglo. Mr. ... it also reports ... says that Mr. Kenny said, "Also some 'noise' about Anglo but nothing specific." Can you recall as to what you meant by "some 'noise' about Anglo" or is that something that you-----

**The Taoiseach:** I would have no knowledge of Anglo Irish Bank. My only connection with them ever was at the ... at a formal meeting that I attended as part of a group of Fine Gael people going to see all of the banks and Anglo made their presentation in their headquarters and Mr. Moran was there.

**Deputy Pearse Doherty:** Okay. Again, the article ... in an e-mail from Mr. Moran to Drumm, it says, "Enda K called ... Said that today a lot of rumour circulating in Leinster Hse concerning deal with BoI (Bank of Ireland) and ILP (Irish Life and Permanent." Were you informing senior executives of Anglo Irish Bank as to-----

**The Taoiseach:** No.

**Deputy Pearse Doherty:** -----conversations?

**The Taoiseach:** No, it was never my business to be in contact with senior members of banks in the first place. I made the call because I was asked to do it by his brother, that he had wanted to say something to me. I reject that assertion and that allegation in that newspaper report, or in that e-mail, completely.

**Deputy Pearse Doherty:** Okay, can you tell us what you said to Mr. Moran, from the best ... your recollection?

**The Taoiseach:** No, all I said was that I was asked to make a call to him, that he had wanted to say something to me, or so I was led to believe. He didn't say anything to me.

**Deputy Pearse Doherty:** He didn't say anything to you on the phone.

**The Taoiseach:** Of any substance about any banks. And I gave ... I would have given no information whatsoever because I wouldn't be in possession of that information-----

**Deputy Pearse Doherty:** So this is, okay, this is after the guarantee and prior to recapitalisation. It also is reported that you said "Getting very rough on the ground for business, said Bruton", which is Minister Richard Bruton, "issued a statement this afternoon pushing for a bank recap." And it's understood that, actually, that statement was issued on that same day. Did you mention that to Mr. Moran?

**The Taoiseach:** I don't recall mentioning anything about Fine Gael policy position in so far as recapitalisation would be concerned. I certainly would have said, as everybody would have evidence of around the country, that things were getting very difficult for business.

**Deputy Pearse Doherty:** But you did not discuss recapitalisation of the banks-----

**The Taoiseach:** I would never discuss Fine Gael policy or Government policy with anybody unless it was appropriate to do so and certainly not with bankers.

**Deputy Pearse Doherty:** Okay. So you didn't discuss the issue of recapitalisation with Anglo Irish Bank on that telephone call?

**The Taoiseach:** Well I can't recall mentioning a recapitalisation to anybody. Obviously,

Fine Gael had a policy position in respect of Anglo Irish which ... We were the first party, I think, to outline what we thought should happen to it.

**Deputy Pearse Doherty:** Why were Fine Gael pushing for bank recapitalisation at that time, which is late November 2008?

**The Taoiseach:** Gabh mo leithscéal?

**Deputy Pearse Doherty:** Why were Fine Gael pushing for bank recapitalisation at that time?

**The Taoiseach:** I think Fine Gael were obviously very concerned about what was happening to businesses and credit in the country and the situation. While the cracks had been there before 2007, obviously the people made their decision in a general election. Fine Gael adopted a policy position in respect of banks and Deputy Bruton would have all the details of that because he presented his proposals to the Fine Gael Front Bench.

**Deputy Pearse Doherty:** Can I ask, Deputy Bruton, you were very critical of the tax reliefs in your opening statement in relation to the property tax reliefs and indeed Mr. Kenny outlined them in his opening statement. Can I ask you, Mr. Bruton, why did you table an amendment in the Finance Bill in February 2004 looking for an extension of the tax reliefs to allow for, not full planning permission to be required, but outline planning permission - and your colleague Jimmy Deenihan argued that a specific case in relation to a hotel in his constituency would not be able to avail of the scheme which was the foundation of the amendment - given what you tell the committee in terms of your party's opposition to these tax reliefs and their extension?

**Deputy Richard Bruton:** Well I don't have the detail but from what you describe yourself, it would appear that some project who was very close to the deadline of a relief had a planning arrangement-----

**Chairman:** Minister Bruton, can I just interject for a second, there is mobile interference coming off your table below there, if I could ask, you have to have your phone switched off, putting it on silent is not sufficient.

**Deputy Richard Bruton:** No, the phone is on airplane mode.

**Chairman:** Okay. And maybe the Taoiseach ... it may be the Taoiseach's.

**The Taoiseach:** Mine is switched off, to be honest with you.

**Chairman:** Okay, all right. It's just picking up, I'm getting something from broadcast there. My apologies.

**Deputy Richard Bruton:** In 2004 my ... I mean, I don't have the document to which you're referring but from what you describe of it, it would appear that there was some projects coming to the end of a period and there were some projects who were in planning and there was an issue of could they, you know, complete their planning within the terms of the scheme? And naturally that is something that, you know, is worthy of consideration if a lot of effort had been put into an individual project under ... if you like, with the reasonable expectation that they would get support.

But you know, across the board we were not supportive of tax breaks and I can, you know, cite numerous examples. This debate raged ... it was around 2002 when the Government identi-

fied that some of the tax breaks were not fit for purpose and I recall an Indecon report showing that the benefits were less than half of the costs and there was clearly evidence that the construction sector was becoming stronger and stronger. The house building programme, as you know, built to extraordinary levels. It was not a time to continue those reliefs. And we consistently opposed the extension of those reliefs as a policy tool.

**Deputy Pearse Doherty:** Do you accept, bar the amendment that you officially tabled in your own name in the finance committee on 2004, which as Deputy McCreevy says, “The Deputy’s amendment [which is your amendment] seeks to achieve an extension of the transitional arrangements for the existing schemes of capital allowances for hotels and holiday camps.” and there were a number of other schemes as well which you-----

**Deputy Richard Bruton:** Yes, there was an individual case which had been in a planning process and had got into some sort of difficulties and wasn’t able to make the deadline and the case was whether an extension could be allowed to ... There was a legitimate expectation, I suppose, that the project was built on the basis ... was being developed on that basis. And it was in an area that needed such support and it seemed reasonable to put that up for consideration by the Minister.

**Deputy Pearse Doherty:** And in relation to ... From your understanding of ... and being on the finance committee at that time, the argument that you have put forward in relation to specific projects being captured and not being able to avail of these reliefs and obviously if you extend them, you extend them for not just the individual project that may be knowledgeable to you but other projects as well that-----

**Deputy Richard Bruton:** No, this was an issue-----

**Deputy Pearse Doherty:** Can I just finish the question, sorry. Do you also ... do you believe or not that was the same type of argument that was provided by Government in extending the tax reliefs in 2002, 2004 and 2006?

**Chairman:** Thank you, Deputy, now I’ll bring you back in again. Mr. Bruton.

**Deputy Richard Bruton:** No.

**Chairman:** Okay. Thank you. Deputy Kieran O’Donnell.

**Deputy Kieran O’Donnell:** Thank you Chairman. I want to welcome the Taoiseach and Minister Bruton to the hearing. The period 2002-2007, what concerns, and this is to both witnesses .... what concerns did you have about the rate of growth in the domestic Irish banks in terms that their loans portfolios around property ... and the credit policies they were adopting? And can you please give me examples of how you both would have articulated these concerns at the time? Taoiseach.

**The Taoiseach:** Is that for me?

**Deputy Kieran O’Donnell:** For both.

**The Taoiseach:** Well, clearly, we opposed the structure of financial regulation that had been put in place by the previous Government. Deputy Bruton will expand on the reasons that he led Fine Gael’s opposition to that legislation in the Dáil, and for very good reason. We expressed concerns about the direction of the economy more generally up to 2007, including a credit growth which I pointed out in my opening statement there. But the ... My concerns fo-



cused mainly on the total loss of competitiveness of the Irish economy and the shift away from that export-orientated model that we had which was very successful. As far back as 2002 and 2003, in my position as Leader of the Opposition in the Oireachtas, we gave prominent notice to the warnings issues by the National Competitiveness Council. In 2002, for example, I said, you know, Ireland has crashed down to the bottom of the competitiveness league. 2003 we launched the rip-off campaign that-----

**Deputy Kieran O'Donnell:** Specifically, I suppose the question really specifically, Taoiseach, is around growth in the loan portfolios of the banks specifically, is the kernel of the question. Specific.

**The Taoiseach:** Well clearly the situation that was becoming evident in banks was that serious loans were being given out for very finicky reasons in many cases and clearly the extent of borrowing increased absolutely dramatically, I've given you those figures earlier on. In 2003, 2005, 2006 I pointed these out in budget contributions in the House to the Government of the day in respect of the dangers that were applying here. And you'll note that in respect of Deputy Bruton's positions on those, particularly in respect of the construction sector, the extent of loans being given out, the overruns in many of the infrastructure projects - port tunnel, PayPal, all of these things - which were fuelling a credit boom.

**Deputy Kieran O'Donnell:** And Minister Bruton?

**Deputy Richard Bruton:** Yes, I think like ... I obviously have to go back and see, but I see one statement I had at the time, €118 billion increase in Irish indebtedness in two years. This was the start of 2007.

**Deputy Kieran O'Donnell:** Where was this made?

**Deputy Richard Bruton:** This was on foot of "the Central Bank's monthly statistics for last December reveal that in two years alone Irish residents have increased their indebtedness by €118 billion".

**Deputy Kieran O'Donnell:** Was it in the form of a press release from you? Was it?

**Deputy Richard Bruton:** It was on the back of the then report of the Central Bank but I think over the period of, you know, throughout the period, you know, banking, lending, financial regulation was-----

**Deputy Kieran O'Donnell:** That would have been '07, prior to '07.

**Deputy Richard Bruton:** Yes, throughout that period, I mean, the concerns... as you know, at least as the Taoiseach has outlined, in 2002 we were very unhappy with the Central Bank and financial regulation structure, that we didn't believe it was fit for purpose. Those concerns continued right through 2004, 2005. You had a number of cases where the banks were not compliant with their obligations. The banks were seen to be having excessive profits compared to other states, we challenged that as to whether the regulatory system was addressing adequately the growth in the banks.

**Deputy Kieran O'Donnell:** Did you challenge it enough from 2002 onwards?

**Deputy Richard Bruton:** Well clearly it was never enough in the sense that the banking system was highly exposed. The Central Bank itself, as you know, in their stability reports of 2005 and 2006, they highlighted the vulnerabilities that were there, the excessive growth in

credit, the excessive reliance on property, the excessive reliance on overseas funds. But none the less, they concluded, the Central Bank and Financial Regulator, that none the less the system was robust. And in 2006 they actually said that it was more robust than it had been in 2005, which was, was probably hard to understand, and, you know, we did have the Governor of the Central Bank in before committees and, you know, the picture was one that, yes there was high growth but the, you know, look at the value of the assets on the other side of the balance sheet. So I think there was an inadequate probing of, of this issue by those who were the regulators. From our point of views, I suppose, we saw the vulnerabilities but, we highlighted, I suppose, particularly what was happening in, in the public sector, where an alarming dependence on construction was emerging as a base of public spending, as well as, if you like, individual credit decisions.

**Deputy Kieran O'Donnell:** Can I feed that into the manifesto 2007 and, Chairman, it's Vol. 2, page 73 to 78 for the witnesses, and specifically really what I want to ask is: do you both believe that looking at the assumptions underpinning the budget, that your due diligence on the rate of growth around the assumptions was robust enough? You referenced the ESRI and Department of Finance but feeding into account that you had concerns about construction, and within the, the manifesto, the budget proposal, what did ye ... what were the measures ye put in place to, to deal with the imbalance of construction taxes making up 25% of tax revenues in terms of ... and potentially, did you see that there would be ... what contingents did you put in place for maybe a fall in tax revenues from construction, did ye anticipate a fall? So, two questions: were your due diligence in terms of the assumptions robust enough, in hindsight? And secondly, what measures did ye put in place to deal with, did ye see a reduction coming in construction taxes and what measures did ye put in place to rebalance the economy in that regard?

**Deputy Richard Bruton:** Well, as, as you say, you know, in retrospect, due diligence of economic expectations wasn't strong enough but political parties weren't the source of forecasts and no political party would be credible in offering our forecast of what's happening to the economy. So, we relied on the Department of Finance and ESRI forecasts. Clearly, in retrospect those forecasts were wildly optimistic but we, we relied on those. We built into our manifesto, and you'll see it there, the ... a provision that within the public finances, a contingency would have to be built into the public finances for the expectations, you know, for what might go wrong because of vulnerabilities. We also very clearly, I mean, the previous four years had been characterised by a growth in the rate of public spending from about 6% up to 13%, a progressive growth in spending as the election approached. We did the very opposite, we said "we must now grade back our growth" and we did that in line with what had been our traditional view, that it should be kept related to the, the growth in GDP of 2%-----

**Deputy Kieran O'Donnell:** But, but Mr. Bruton, looking at page 78 of your budget manifesto, current spending was running ahead of, of growth over the years proposed. Can you explain why that was the case? Against the background of construction taxes, did you have concerns that construction taxes would fall?

**Deputy Richard Bruton:** Well, our current spending was forecast over the period to be grow at 8%, GDP was growing at 4% and the, the policy rule we had had, as going back to 2002, was nominal growth in GDP plus 2 points-----

**Deputy Kieran O'Donnell:** What did you project nominal growth at at the time?

**Deputy Richard Bruton:** Well obviously, between 4.2% and 8% you had inflation, which was running around two and you had the 2% margin. So, we, we projected in line with the

policy that we had pursued back in 2002 and was consistent that growth should ... that growth in public spending could be somewhat higher but have to be within the pattern with growth of the economy. What had been going ... in the years prior to that, was huge surges in spending, totally unrelated, and the reason why that was possible was that the stamp duty and the property taxes and so on were, were coming in. So, we very clearly said, you know, we need stamp duty as, as stamp duty as you probably will recall, was an extraordinary tax. It was a step tax; it grew in this exponential basis so that when you went over certain thresholds, you went from maybe zero to paying €10,000 or from paying €11,000 to paying €22,000.

**Deputy Kieran O'Donnell:** Then a final, final question-----

**Deputy Richard Bruton:** So we, we said, you know, we ... and that was locking first-time buyers out of the market, it was becoming an excessive source of, of, of reliance-----

**Deputy Kieran O'Donnell:** You realise Mr. Bruton, I have, I have limited time-----

**Deputy Richard Bruton:** I beg your pardon, sorry.

**Deputy Kieran O'Donnell:** -----and the Taoiseach, I want to bring in as well. Did ye build contingencies into the budget in terms of fall in taxes from the construction sector?

**Deputy Richard Bruton:** Yes we provided in, in, in the policy manifesto for a contingency in, in that respect.

**Deputy Kieran O'Donnell:** At what level?

**Deputy Richard Bruton:** I don't know what the level, we, we said that in, in budgeting that would have to be an element, I don't have that detail.

**Deputy Kieran O'Donnell:** So, was ... ye were looking at a reduction in current spending over the period?

**Deputy Richard Bruton:** We were looking at bringing down the growth rate ... on, on ...a, a spending growth rate.

**Deputy Kieran O'Donnell:** Spending on a growth, spending on a growth rate?

**Deputy Richard Bruton:** Spending growth rate, which had been going in the opposite direction in the years before.

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

**The Taoiseach:** If I may interject there, Deputy, if it's helpful actually ... in , in 2003 we did the rip off campaign at the time. In 2005, I made the point to ... the Minister for Finance, Brian Cowen, at the time, about the, the construction sector had been boosted to 250,000 employees, heading towards 90,000 units. Ten or 15 years before that we were on ... based on exports and competitiveness. In 2006, I made those warnings much more pointed, pointed out that the share of world trade peaked in 2002 and had been in decline subsequent to that ... our, our trade grew, grew very strongly. I finished off that contribution by saying that if anything, the budget they were introducing threatened to further undermine the competitiveness of small businesses and exporters and the relentless and uncontrolled increases in current spending was very dangerous. What Deputy Bruton pointed out there in respect of the stamp duty was absolutely clear. House prices back in the decade of 1997-2007 had risen by over 300%, from €102,000 to €323,000

...and even higher for second-hand houses and we brought in a series of propositions to, to make that much more appropriate; no stamp duty for the first-time buyers up to €450,000, 9% in excess, for non-first-time buyers, nought to €100,000, zero tax and the next €350,000, 5% tax, and above €450,000, 9%. And that was, that was designed to, to sort of have a more appropriate tax regime but make it possible for first time, first-time buyers to get into the, into the market in a way, and that was compatible, if you like, with a slowing house, house market. House prices were falling in 2007, with the new housing starts and it led to ... it led to an increase in liability.

**Deputy Kieran O'Donnell:** Okay. Can I ... in your witness statement, Taoiseach, on page 6, you make reference to the excessively close relationship between the Central Bank and the Department of Finance at the time, and between the Financial Regulator and the institutions it was charged with regulating. My colleague, Joe Higgins, referred to it, affectionately as “Siamese twins”. And can you clarify in what way you regard the relationship between the Central Bank and the Department of Finance that have been excessively close? Would this have not been a normal situation to manage the economy and regulate the economy properly? And similarly with the Financial Regulator and the banks, how should such relationships be managed and how should they be objectively measured? So, you speak about this excessively close relationship between the Department of Finance and the Central Bank and then between the Financial Regulator and the institutions they were regulating. So, you might expand on that Taoiseach, what you mean.

**The Taoiseach:** Yes, this is not a ... it's not a controversial statement because the pattern of appointing Central Bank Governors was almost exclusively from the ranks of senior civil servants in the Department of Finance without any external scrutiny and without any external competition. I believe that was a serious mistake. I think it's clear that this led to the absence of any, sort of, constructive tension, if you like, between the, between the two or dissonant viewpoints between the two institutions regarding the direction of the economy and the risks that we faced. Clearly, with regard to the relationship between the Financial Regulator and the banks, I note that the ... the former Financial Regulator, Mr. Neary, acknowledged in his testimony to your inquiry here that having the Irish Banking Federation organise a retirement party for the chairperson of the Financial Regulator was utterly inappropriate. This was, if you like, systematic of a relationship that lacked, sort of, the necessary, you know, bite in authority and ... wasn't, wasn't appropriate.

I know that Ms Burke from ... of both IFSRA and formerly from the Central Bank, spoke to the inquiry of this excessively close relationship, she said:

Senior banking executives had direct contact with senior executives in IFSRA, often without the knowledge of, not to say engagement with supervisory staff. Staff were regularly requested by senior IFSRA executives to review decisions or issues based on these decisions or were told by contacts in banks that the issues had been or would be discussed with our senior executives

To me she said, “At its most benign it indicated a disconnect between BSD and the senior IFSRA executives.” She said it also signalled a “manifest lack of support for staff, undermining them in their dealings with banks and-----”

**Deputy Kieran O'Donnell:** And Taoiseach how was ... in the limited time I have, how is the situation different now? Like, you speak about the situation then. How is it different now? How is it improved?

**The Taoiseach:** There is a different process of making appointments to these important positions. Those remarks that I mentioned there were followed through by others to the inquiry here and you have all those on record. But this is an important change that the Government have brought about here where there is, you know, an application process, an examination-interview process and a scrutinising process of the capacity of people to fill these positions. Some are from abroad and some are from at home. It's a big change from what applied before where the vast majority of Central Bank Governors came from within the Department of Finance in a seamless transfer and, therefore, there couldn't be the, sort of, you know ... shall I say, appropriate relationship between two important entities.

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

**Chairman:** There is phone interference there. I can even hear it inside in the room at the moment, folks. Deputy John Paul Phelan.

**Deputy John Paul Phelan:** Thank you, Chairman. Good morning, gentlemen. I've only six minutes so I would ask you to be as brief as possible in your answers. Continuing on from Deputy Doherty's question earlier Taoiseach, in relation to the *Sunday Independent* article from 21 July 2013, I want to put a quote from it to you:

In one email, dated November 19, 2008, Mr Moran tells his boss, Mr Drumm, that "Enda" told him that the State was considering telling Bank of Ireland to take over Anglo to prevent it from collapsing.

Do you recall having that conversation with Mr. Moran? If so, how were you aware of that information?

**The Taoiseach:** Would you repeat that, Deputy?

**Deputy John Paul Phelan:** The quote is:

In one email, dated November 19, 2008, Mr Moran tells his boss, Mr Drumm, that "Enda" told him that the State was considering telling Bank of Ireland to take over Anglo to prevent it from collapsing.

Do you recall having that discussion with Mr. Moran?

**The Taoiseach:** I don't recall that, no.

**Deputy John Paul Phelan:** Okay.

**The Taoiseach:** I don't. My only association with Mr. Drumm was a meeting I attended.

**Deputy John Paul Phelan:** Okay and I want to reference that meeting as well. You told the Dáil on 25 June 2013 and I want to quote you directly. You said:

I had the doubtful privilege of calling into Anglo Irish Bank with Deputy Bruton, when he was the party's spokesman on finance, a couple of weeks after the guarantee went through. We met all of the principals in the bank's building on St. Stephen's Green.

Firstly, who sought the meeting? And, secondly, can either of you recall who was present on the Anglo side and what the purpose of the meeting was?

**The Taoiseach:** Yes, we would have sought the meeting because we went and visited both

Anglo Irish, Bank of Ireland, AIB - I attended at those three myself. And the purpose of the meeting was to have a discussion about the general economic situation and to inquire about the healthy state, or otherwise, of the banks. And that's why I said that, in the case of Anglo Irish, a presentation was given that was to the point that Anglo was a model of a bank that would emerge from the recession as the strongest of any bank, that all of the loans approved - both in America, in Ireland and in Great Britain - were approved by the people who sat at the other side of the table. I recall Mr. Drumm being there; I recall Mr. McAteer being there; I recall Mr. Moran being there; I think, to be honest with you, that there were seven or eight on that side. I don't recall the other names. I can have them sent into the Chairman, if you wish.

**Deputy John Paul Phelan:** Okay. What was the nature of the meeting? Like, was it ... you say that you had sought the meeting itself. Did you feel that you were getting the full picture, I suppose, from Anglo? This is a couple of weeks to-----

**The Taoiseach:** Well, I did ask before I left, I said, "I'm not a banker but can somebody tell me, I'm hearing on the streets that things are not as you're presenting them here". And the answer that I got was, "Well, we can tell you that the model that we have here for Anglo Irish is an outstanding model. This bank will come through the recession stronger than any other."

**Deputy John Paul Phelan:** Do you feel with hindsight that the meeting should have taken place or-----

**The Taoiseach:** I do. I think it was an important ... it was strictly a formal engagement from representatives of a political party, inquiring legitimately from banks as to their views on the state of the economy and their position in so far as credit and lending was concerned and their response to our questions about the health, or otherwise, of the banking position they were in.

**Deputy John Paul Phelan:** Can I ask you - and I only have two and a half minutes left - when were you first informed of the Government decision of 29 September 2008 in relation to the blanket guarantee that was entered into? And who did you have that discussion with?

**The Taoiseach:** I was in ... I was actually out in, I think, it was the TV3 station in the morning. I had a call from the late Minister for Finance, Brian Lenihan. I was actually just about to start an interview. I think at that stage that he may have spoken to Deputy Bruton as our spokesman on finance, and the question that he asked me was like, "What would Fine Gael's position be if a guarantee were given in respect of the banks?" And I recall saying to him, "Look, I'm doing an interview here but we have to have a banking system because it's the lifeblood of the economy but I'd need to know the conditions that you're talking about."

**Deputy John Paul Phelan:** And was the conversation with Minister Bruton prior to the conversation with yourself?

**The Taoiseach:** Yes, I think that ... if I'm ... if I recall correctly, the late Minister Lenihan may have contacted his opposite number before ... I think, the interview was sometime after seven o'clock in the morning. I'm not quite sure of the time but I can check that out. That's the first I heard of it.

**Deputy John Paul Phelan:** Okay and that was seven o'clock in the morning of the 30th, on the following morning?

**The Taoiseach:** It was early in the morning and he called me himself.

**Deputy John Paul Phelan:** Minister Bruton, can you-----

**Deputy Richard Bruton:** No, my recollection is something similar. I mean, I think rumours were coming through the night before that there was going ... there was pressure, that the banks were in serious difficulty and that something might happen and so I think the following morning Brian Lenihan phoned to say the Government was making this decision and, obviously, there was ... he was setting up briefing and debates and so on. So, you know, I think at that stage, clearly, one of the things we'd seen with Northern Rock, the fear of a run on the bank where, you know, even if you have a sound bank and there's a run on the bank and people want to take out their deposits, it can bring down even a sound bank, let alone banks that were, as subsequently proven, not sound. So, clearly, you know, the ...a run on the bank would have been a very serious issue and I think that was the context within which it was presented as a-----

**Deputy John Paul Phelan:** One more question. I'm sorry for interrupting but there's only ten seconds left and I have to ask you. During your time in opposition do you feel that you were able to make effective use of decision-making processes within the Oireachtas to strengthen legislation, particularly financial and banking sector legislation? Minister Bruton, maybe, first.

**Deputy Richard Bruton:** No, I mean I think I've outlined it in my submission. I mean, repeatedly there wasn't. I mean, at the very first time when the Central Bank and IFSRA legislation came in, I sought that there should be a proper study of the adequacy of our oversight mechanisms, that we should, you know, in light of then financial breakdowns like Enron and so on, that we needed to stress test our approach. There was no such provision. That Second Sage amendment, which sought to defer the legislation until such a review had taken place, was not accepted by Government. There was then no provision for hearings to be held by the committee. We had, obviously, amendments but, ultimately, the Bill was put through at the end without our amendments, but, you know, I think that was a serious mistake. And I think repeatedly ... and I did outline it on the piece that I said on Oireachtas supervision ... you know, the intention, even back to the Public Service Management Act of 1997 when, you know, there was supposed to be a certain approach to spending strategies and outcomes and evaluations, rolling evaluations, that had just rusted over in that period. There was no evaluation. The way in which the budget itself was put together allowed no scrutiny, particularly no scrutiny of tax expenditure. But even spending wasn't properly scrutinised.

**Deputy John Paul Phelan:** I just want to put that question, my time as just elapsed, to the Taoiseach as well. Did you feel that you had effective use of the decision-making processes in the Oireachtas with regard to legislation for banking in the financial sector?

**The Taoiseach:** Such as they were, my regret would have been that the Government didn't listen to the consistent advice that Fine Gael would have given from our point of view; clearly, it has changed now. I suppose my biggest regret politically is that we didn't win the '97 election, that this might never have happened, but it did. And just on a point, I noted from one of my notes here, Mr. Chairman, just for your information. I think that meeting with Anglo was after the guarantee was given. I want to clarify that for the members of the committee.

**Chairman:** Thank you very much. Senator Michael D'Arcy. Senator, ten minutes.

**Senator Michael D'Arcy:** Thank you, gentlemen. In 2007, the Fine Gael manifesto also called for tax cuts and additional public expenditure in many areas, for example, the extension of medical cards-----

**Chairman:** Sorry, Senator, I'm going to have to make an interruption there, please. Look, it's not fair to witnesses, it's not fair to people who are trying to broadcast these proceedings and it's not fair to all others. Sometimes the phone issue is a proximity issue, it's not actually the person themselves, but it is people having ... all members need to have their phones in safe mode, all members. And I would say the same to people in the public Gallery, please. Thank you.

**Senator Michael D'Arcy:** Can you restart the clock, Chairman?

**Chairman:** I'll restart the clock here, I will indeed. Turn off the phone and I'll turn on the clock.

**Senator Michael D'Arcy:** Only six minutes. In the Fine Gael manifesto of 2007, it called for tax cuts and additional public expenditure in many areas. An example is the extension of medical cards. Can you explain how your expenditure policies would have been less pro-cyclical than the Government's? Let's start with Mr. Bruton.

**Deputy Richard Bruton:** Yes, I suppose at that time, the key issue for us was, as I said, two things. One was restoring enterprise, innovation and exports, that was the model. That had been severely undermined, and we believed that part of that was a tax policy that would be more supportive of enterprise. So we did, with the economy forecast as it was then, to be on a reasonable growth phase, we believed that what we needed to do was to wind back the rate of growth of public spending, and introduce taxes and other measures that would drive economic recovery and enterprise recovery and if you look at our ... I don't have the time ... but if you look at our, our manifesto, you'll see numerous areas which we've subsequently done in government, of how we would rebuild an enterprise base and look at reforms right across the whole system to deliver better access to finance, easier to start a business and so on. So the issue really was, was getting value out of the system, and a lot of our focus was on, you know, restructuring the economy, not on the cyclical dimension. That was the ... it was about how do you restructure an economy to deal with the vulnerabilities that were growing up.

**Senator Michael D'Arcy:** Taoiseach, you mentioned about the '97 election, the expenditure by the State in 2000, or in 1997, was €18.8 billion. A decade, 11 years later, it was €63 billion. Again, a similar question to the 2007 Fine Gael manifesto: what were the specific policies that you were advocating, that Fine Gael were advocating, to lower expenditure in a period, in that decade, where it had gone from €18.8 billion spend to €63 billion spend?

**The Taoiseach:** Well, we pointed out the growth in public expenditure, we opposed the way that benchmarking had been introduced, for instance. We called for a renegotiation of the principle of the way decentralisation was being promoted and consistency in respect of both of the lowering of income tax and the retention of corporation tax, of the tax rate. So ... where we tried to focus, from our Opposition perspective, was to get back to being a lean, export-oriented, growth economy, which was based on manufacturing and on exports, which were proven in the ... in '94-'97, and continued for a year or two after that, until you had an extraordinary explosion in the construction sector, where you had a lot of credit and a lot of activity, which, sort of focused, I suppose, the minds of Government then, on their assumption that you could run all the services from the taxes that were coming in from a fuelled property, property section.

**Senator Michael D'Arcy:** You're talking about growing the economy and it bringing in additional moneys. What I'm asking you were, in terms of the '07 Fine Gael manifesto, were there specific policies that you were advocating to lower expenditure? An example in that same



decade or period, the public sector pay bill went from €8 billion to €18 billion. Were you, or did you advocate policies to reduce those figures or what were your specific policies to reduce expenditure?

**The Taoiseach:** Well, they were outlined in the programme itself. But we were consistent in our criticism of the lack of scrutiny from social partnership, in the directions that were given by, for instance, Finance in respect of benchmarking, the lack of scrutiny in terms of major infrastructure projects which overran seriously, and the wastage in public expenditure. So we wanted our tax position to be well focused but to get back to a point where you were going to have growth in your economy, which would create jobs and as a consequence, allow for services to be spread throughout the country, particularly to the most vulnerable. And we've mentioned issues like the disabled or the medical cards or those who were in vulnerable positions.

**Senator Michael D'Arcy:** Taoiseach, on page three of your witness statement, the first bullet point, you state: "Significant tax incentives were introduced - and subsequently extended beyond the lifespan originally agreed - for property investment ... hotels ... holiday camps, holiday cottages". You were the Minister for Tourism and Trade when a pilot programme was introduced, it became known as the seaside resort. Can I ask, during your period in ministerial office, was there analysis done in relation to why that tax break was introduced, and if there was analysis done, was it done by your Department or was it done by the Department of Finance on the basis of introducing a pilot scheme of this nature?

**The Taoiseach:** Yes, when I was Minister for Tourism, obviously, we sort of looked at a jaded tourism sector which had so much more potential than it was actually achieving. In the course of, you know, travelling throughout the country, you came across particular areas that were clearly in need of some sort of infrastructure investment. And people from all over the country, from particularly the coastal areas, said "Look, we're out here on a limb. This place is falling asunder. You've got to do something to stimulate investment so that we can have a product that people will want to come and enjoy and therefore, you know, be able to contribute to the economy." And we discussed that at some length, as to what might happen, and the decision was that there should be a pilot scheme introduced in a small number of areas. That was expanded to include 15. It was done on the basis of the district electoral divisions as determined by the local authorities. It was different now than the, you know, the urban sort of renewal scheme, which was a much smaller scale. I have to say that the response was one that was assessed. I think it generated about €700 million or €800 million worth of work in terms of infrastructure, construction and so on. I would say that some of the towns which were designated, Senator, took this in a far broader way than others. Some, where their hotels went after the scheme and provided facilities for, you know, a much broader range of tourist coming in, whether it be pools or whatever else, some areas did better than others. But I think it generated about €600 million to €700 million and ended, I think, then in 1999. And no more than the case that was raised earlier, there were planning problems with some of these, so where people entered into the scheme that if they had gone beyond a certain point of, you know, a contract being signed or building under way, it was allowed to finish its course. But the reason for the case in the first instance was because many of these communities said "Look, we are really stranded here, we have a jaded product, there's a clear need for some infrastructure investment", and so that kind of pilot scheme was designed and put in place. And so, you know, the Revenue Commissioners, the Department of Environment and Local Government, Finance, Bord Fáilte, Shannon Development, they all put the details together and obviously there were meetings held in the locations that were chosen, from financial people about how they, how the scheme would actually work. So it was assessed and I suppose there was a qualifying relief and the tax fore-

gone in that scheme, I think, was about €250 million altogether.

**Senator Michael D’Arcy:** Just very briefly-----

**Chairman:** Very briefly, now, because you’re over time.

**Senator Michael D’Arcy:** In a question to Minister Brian Lenihan dated 11 November 2008, the Minister says:

At the time of publication the estimated output of self catering resorts was between 5000 and 6000 units. However, the report also stated ... the scheme did not contribute, in any significant way to the achievement of a key tourism objective [for] “the attraction of overseas tourists” but probably assisted in the achievement of regional spread in domestic tourism terms.

Mr. Kenny, the figures that the Minister for Finance, at that stage, gave was a tax foregone, a tax break of €319 million and if you read that ... the analysis of that response is quite clear, that there wasn’t an assessment subsequent to the scheme. The scheme didn’t contribute towards the expectation of improving tourist facilities, giving the people the reason to go beyond an extension of 5,000 to 6,000 units. And I suppose, what I’m trying to come at, Mr... Taoiseach, is how we got to a stage where pilot scheme moves-----

**Chairman:** I need to push on, Senator. If it’s relevant-----

**Senator Michael D’Arcy:** I am, Chairman, moved ... but it’s relevant to the overall point-----

**Chairman:** Just ask the question, please.

**Senator Michael D’Arcy:** -----how it moved from a pilot without obvious analysis to a cost to the State of €319 million without then subsequent analysis.

**Chairman:** Okay-----

**Senator Michael D’Arcy:** I mean how the business of State is done, doesn’t look great in that circumstance, Taoiseach.

**Chairman:** Okay. I just make one intervention here, now. The purpose of the witnesses today and in the next session is to account for their role. It’s not for Government to be account ... or the witnesses here are not to be accounting for Government or Government decisions. It’s their aspect to processes and decisions that were made at that time. Okay. Mr. Bruton.

**Deputy Richard Bruton:** Well, clearly we have advocated that tax expenditure should be put under the same scrutiny as anything else and I think that has been a consistent part of the budgetary strategy we articulated in those years because I think it is true, as the Deputy said, that a huge commitment, that no one had known the size of it, to the property sector had built up and it was renewed each year and there wasn’t scrutiny. And the same was true of many other tax expenditures. So, our view was that you did need to introduce such scrutiny and evaluation in the same way as you would ... well, you needed scrutiny and evaluation on the spending side and the ... you know, one of the problems in those years that the mechanisms that were in place for evaluation, which were sanctioned by the 1997 Act, were simply not implemented by Government in those years. So, you know, the evaluative machinery wasn’t in place to do the work that ought to have been done on tax expenditures as well as many of the other areas of waste.

**Chairman:** Deputy Joe Higgins.

**The Taoiseach:** I might just say on that, for your information Senator, that in 2000, an inter-departmental committee comprised of Revenue Commissioners, Department of Environment, Finance, Revenue, Tourism ... they did an analysis of the scheme which had been extended up to December 1999 and they are the figures that I gave you. That they reckoned that there was €600 or €700 million generated, €250 million foregone. Now, the late Minister Lenihan, obviously, may have carried out a more detailed analysis of that particular scheme issue.

**Chairman:** Deputy Joe Higgins.

**Deputy Joe Higgins:** Mr. Kenny, when you were leader of a major Opposition party from 2002-07, were you able to meet with staff or officials from the Central Bank or the Financial Regulator?

**The Taoiseach:** I'm sure I was but I didn't.

**Deputy Joe Higgins:** There was no meetings - structured or informal?

**The Taoiseach:** No.

**Deputy Joe Higgins:** Okay. Based on your experience of that time and looking into the future, should there be a structured possibility for parties in opposition to meet with the Central Bank and the regulator in relation to financial issues of the day?

**The Taoiseach:** Yes, of course. There should be.

**Deputy Joe Higgins:** Thank you. Mr. Kenny, the Fianna Fáil Party has been heavily criticised for hosting an annual fundraising initiative in a marquee in ... during Galway Race week, and it was said that many developers, including some of the biggest debtors in NAMA, were said to be there making contributions. Now, on 6 February 2011, Michael O'Farrell, correspondent with the *Irish Mail on Sunday*, under a heading revealed "Fine Gael secret cash from developers" said the following, and I quote, "An investigation by this paper has established that the party [that's Fine Gael] has been able to bring in up to €150,000 a time by hosting business men to lavish golf days at luxurious British and Irish courses." And Mr. O'Farrell goes on to mention the K Club and also to mention some of the biggest debtors in NAMA as being contributors, including major ... as well as major accountancy firms and a banker. Mr. Kenny, was the Fine Gael Party as close to sectors of the property industry and developers as Fianna Fáil allegedly was?

**The Taoiseach:** Certainly not.

**Deputy Joe Higgins:** How do you explain this interaction then and what's the difference between the Galway tent, which you often criticised, and these golf classics?

**The Taoiseach:** Well, I would say to you, Deputy Higgins, to run a major party, obviously costs a considerable amount of money. The vast majority of Fine Gael's fundraising came from our national draw, and still does, from ordinary members of the party and supporters around the country. Any occasions of a social nature were certainly not in the terms that you described them there as and obviously would have had to comply with all of the regulations of SIPO. But let me repeat for you that Fine Gael's fundraising is, in the vast majority, came from the national draw and as you'll realise, we put an end to corporate donations entirely.

**Deputy Joe Higgins:** But what was the difference at the time, Mr. Kenny, between you receiving donations, substantial enough for golf classics, from property developers or construction interests as the Fianna Fáil Party?

**The Taoiseach:** I would say if anybody wished to participate or contribute in a Fine Gael golf classic, which no longer applies, or whatever, it certainly had no bearing, from our party's point of view, on any particular interest that they might have. I suppose, in any democracy, people are entitled to support who they wish but let me assure you that in so far as the Fine Gael Party was concerned, the relationships that you referred to did not apply and anybody who participated in a golf match or whatever, I'm not sure how they played.

**Deputy Joe Higgins:** Yes. Mr. Kenny, in the last few days when representatives of the Fianna Fáil former Government and, indeed, developers were questioned, they answered, if I may say so in more or less the same terms that you did now. What was the difference between your approach to accepting donations from developers and the former Fianna Fáil Government?

**The Taoiseach:** I don't know the extent of what Fianna Fáil representatives may have accepted from developers or whatever. I'd remind you that the Fine Gael Party was an Opposition party, struggling in opposition. That the vast majority of our fundraising came from our national draw and that anything else was in ... was strictly in accordance with the SIPO regulations. As I said, and make this very clear to you, Deputy Higgins, that any group or any individual who would have met with ... from a Fine Gael point of view, that had no bearing on any policy adopted by the ... by our political party.

**Deputy Joe Higgins:** The former leader of your party who is now Minister for Finance, in 2001 prohibited corporate donations voluntarily to Fine Gael. You reversed that when you became leader in 2002. Is that correct?

**The Taoiseach:** Well, any contributions to the political party were in accordance with SIPO. We have now ended corporate donations entirely.

**Deputy Joe Higgins:** Last question for you, Mr. Bruton, if I may. Mr. Bruton, in a budget delivered by the Fianna Fáil-Progressive Democrat Government in December 1997, the Government reduced capital gains tax from 40% to 20%. In the subsequent ten years, during the property bubble, massive profits were made by land speculators and developers. There was ... it was said at this tribunal when Mr. Derek Quinlan was here that one syndicate of wealthy people that he organised made €53 million on a land deal and that particular tax reduction reduced their tax liability from €21 million to €10 million, making a gain of €10 million ... €10.5 for wealthy individuals. In the 2007 Fine Gael manifesto, you very specifically opted to keep that tax break. In view of the major speculation and profit-taking that had occurred previously, why did you maintain that position?

**Deputy Richard Bruton:** Well, I think, you know, low rates of corporate tax, low rates of capital gains tax and low rates of ... and competitive rates of income tax are consistent with an enterprise strategy. The difficulty, I think, what happened in those years is that property had taken over ... speculation had taken over from, if you like, a genuine enterprise sector and you see the figures yourself. I mean, there was an explosion, not only in, you know, capital gains tax but stamp duty receipts, VAT from housing. All of these property-based taxes became the heart of Government spending programmes. 25% of the cost for running hospitals was coming from these property-based structures. That was unsustainable and, you know, what needed to be done was to sustain ... to have a credible approach to the whole building sector and to regrow

your enterprise sector. So, consistent with that, we saw a capital gains tax at 20% ... is a reasonable approach for the ... for the enterprise sector. I mean, as you know, in government we have ... when more pressure came on, increased that tax by 65% in the last, you know ... in this ... in the present Government.

**Deputy Joe Higgins:** Mr. Bruton, that election was still held in the ... at a time of property prices and land prices being massively higher. Did you think that it was correct that individuals who buy land, sit on it for a few years, then get planning permission - therefore, the benefit of that land has hugely increased - and they sell it on, that they should be rewarded by halving the capital gains tax as the Fianna Fáil-PD Government did?

**Deputy Richard Bruton:** Well, my belief was that - and I articulated it on several occasions - that the planning system was the problem that was at fault there, not the capital gains tax regime ... that our planning system had simply ... was not fit for purpose and we were encouraging a structure, as you say, of people going to more and more remote areas, getting land rezoned, putting people on impossible treadmills ... that we didn't have a proper planning system and it was part of our wider critique of ... of, if you like, strategic planning that stretched to the way public spending was managed, the way tax expenditures were scrutinised, the way public service was reformed. You know, we needed to have more effective sectoral policies and planning was one of the areas ... we particularly needed reforms. But as far as the tax regime, we supported a 20% tax regime as reasonable, on capital gains. If you set up a business and it is successful at ... you know, it's reasonable to expect that such an entrepreneur from a genuine business would get a ... you know, would get the rewards of his success and that's ... that's what a capital gains tax is about.

**Deputy Joe Higgins:** Did you take any measures-----

**Chairman:** Final supplementary, Deputy, and then I'm going to call a break.

**Deputy Joe Higgins:** Did you take any measures to distinguish what you call an entrepreneur, or a genuine entrepreneur creating wealth, from property speculative ... speculators?

**Deputy Richard Bruton:** Absolutely. Our whole ... our whole strategy was built around-----

**Deputy Joe Higgins:** What would ye have done in 2007, Minister?

**Deputy Richard Bruton:** -----our whole strategy was built around rebooting the whole enterprise sector-----

**Deputy Joe Higgins:** But just to clarify, Mr. Bruton, because we have ... my time is up and we have to have a break. In the 2007 manifesto, did you make any provision to distinguish between what you call genuine entrepreneurs creating wealth, etc., and people making massive speculative gains from land dealing?

**Deputy Richard Bruton:** Absolutely, and, I mean, you're-----

**Deputy Joe Higgins:** But how?

**Deputy Richard Bruton:** -----the proof of the pudding is in the way-----

**Deputy Joe Higgins:** How did you do that when you maintain that-----

**Deputy Richard Bruton:** In the very same ... in the very same way as our Action Plan for

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Jobs in the last number of years has focused on all the barriers that prevent exporting and innovation and job creation. We looked to, you know, to make it easier to start a business, make it easier to get access to credit in areas of enterprise, you know, developing the innovation base of the economy, rebuild the skill base that ... in manufacturing-----

**Deputy Joe Higgins:** Yes, but-----

**Deputy Richard Bruton:** -----as you know had ... had been demolished in that period-----

**Deputy Joe Higgins:** But just-----

**Deputy Richard Bruton:** -----we needed to rebuild the manufacturing base and invest and-----

**Chairman:** Deputy Higgins, I do understand what you need to push and I do need to come to a conclusion-----

**Deputy Richard Bruton:** But he-----

**Chairman:** -----so I'm just going to ask you to summarise very precisely-----

**Deputy Joe Higgins:** Yes-----

**Chairman:** -----what you want.

**Deputy Joe Higgins:** Yes, the net ... the net point, Mr. Bruton, is this: in the 2007 election manifesto, when you elected to maintain capital gains tax at the 50% cut introduced previously by Fianna Fáil and the Progressive Democrats, did you thereby make any distinction in relation to the tax treatment of what you call the genuine entrepreneur creating wealth and individuals making massive profits from land speculation?

**Chairman:** The question is made. Minister Burton ... no, not Minister Burton, my apologies.

**Deputy Richard Bruton:** No, not on the tax system. The changes that we sought to develop were the ones that you can see in practice in the Action Plan for Jobs, which is about making it easier to create employment, you know, creating the incentives to rebuild an enterprise sector, which had been demolished by the construction ... as I say, the growth in export-oriented job growth had fallen by 90% between that earlier period and the latter period. That was the key fault-line in the economy. We were a small trading economy; you had to rebuild that sector and you ... that was what we put our focus on. How would that be done? And we ... the approach we ... we wanted to take in that manifesto is the very same one as ... that we have worked on in government to get that whole of Government approach to build ... to rebuild a strong enterprise culture, strong exporting base, go further afield, build up your trade missions, build up your capacities and that was the approach we took.

**Chairman:** Thank you very much. It's just coming up to 11.05 a.m, I'm proposing a five-minute comfort break to return and 11:10 a.m. In doing so, just to remind both Minister Bruton and the Taoiseach that you are under oath and that the session is now going ... suspended. Is that agreed? Agreed. Thank you.

*Sitting suspended at 11.05 a.m. and resumed at 11.15 a.m.*

**Chairman:** Right, what I'm now proposing to do is that we return back to public session.

Once again to remind members about their mobile devices, please, because it has been problematic. And we're now back in public session, and in doing so I now invite Senator Susan O'Keeffe. Senator.

**Senator Susan O'Keeffe:** Thank you, Chair. Mr. Bruton, how many times did you seek to meet with officials from the Central Bank or from the Financial Regulator or from the NTMA in your role as financial spokesperson? Or did you ... or were you able to do that?

**Deputy Richard Bruton:** I met with them on occasion, and, obviously, we met with them when we scrutinised them in the Oireachtas finance committee. I couldn't give you a count, but, clearly, we were throughout this period, obviously, as legislators challenging them in committees. There were a number of instances, as you know, through that period where bank over-charging, proper, you know, weaknesses in supervision, and, you know, we scrutinised all of those as they developed, and towards the end the, you know, the precarious growth in lending was an issue. And we scrutinised the stability reports and so on. So I kept very much abreast of the issues developing within the sector.

**Senator Susan O'Keeffe:** But would you have been very much, if you like, on the outside as an Opposition person? Does that mean that you were not given access? You wouldn't have seen documents that they had? You would have just had the briefings that were there, the financial stability reports and so on?

**Deputy Richard Bruton:** That's right, yes.

**Senator Susan O'Keeffe:** How close could you get? How close did you get, or were you able to, or was it literally if you're not in government you can't come in?

**Deputy Richard Bruton:** Well, you know, obviously you can seek a briefing, and you will get a briefing, so there's no one would refuse you a briefing, but it would be a briefing as ... of an Opposition spokesperson. You didn't have privy to any, you know, assessments of this or that institution or anything like that. There would have been a commercial sensitivity.

**Senator Susan O'Keeffe:** Do you recall when, or if, you became aware of the NTMA's approach to their so-called safe harbouring policy of not putting deposits ... choosing not to put deposits into Irish banks from late 2007 on? Do you ... were you aware of that? Were you briefed? Did you know?

**Deputy Richard Bruton:** No, I can't recall such a briefing.

**Senator Susan O'Keeffe:** Okay. So that would have gone on without your knowledge? Okay. Do you recall when you became aware, leading into the crisis, say, at the Saint Patrick's Day massacre, the contracts for difference, the Seán Quinn contracts for difference in Anglo - was that something that you would have known about?

**Deputy Richard Bruton:** I mean, I wouldn't have known anything that wasn't in the public domain. Obviously, I kept abreast with any issues that were arising in the public domain, and it was largely from public ... you know, it was from public sources that Opposition obtain the vast majority of their understanding. Obviously, that triggers parliamentary questions and you would, you know, get privy to additional information from the Minister's reply, but it would be from public sources, not private sources.

**Senator Susan O'Keeffe:** Did you ever have any informal/private briefings with bank-

ers from any of the key banks? I'm not here referring to the meetings that the Taoiseach has referred to that you had with the banks where you went as a group, but I'm talking about you yourself.

**Deputy Richard Bruton:** No, it wouldn't have been a feature. I mean, I would occasionally have met the banks about some particular issue, but no, there was no, if you like, briefing in terms of this is the policy position that banks would like to see implemented or that. I mean, there would be occasional meetings around an issue. If I thought it warranted it, I'd look for a meeting about some specific issue. But it was, you know, that was the nature of it. I think, you know, we were fairly trenchant critics of the banks in those ... in that period in terms of the excessive profitability, the charging regime, the ... our belief that there was rip-off, or dissatisfaction with the level of consumer protection being pursued at the time within the regulatory system. So, you know, that was ... it was ... that was the nature of the thing.

**Senator Susan O'Keeffe:** Would you have had ... and I'm talking here now about the very brief time before the actual night of the guarantee, let's say September. Did any of the bankers seek to meet you to express their concerns, to talk to you, to see if you could be of assistance? Because we've been aware there have been all kinds of meetings going on with all kinds of bankers. Did any of them seek you out?

**Deputy Richard Bruton:** No, there was ... no one sought me out. You know, but obviously after Northern Rock there was very much a heightened awareness-----

**Senator Susan O'Keeffe:** Sure.

**Deputy Richard Bruton:** -----of financial vulnerabilities, and it was the subject of a lot of the parliamentary questions that I was submitting to Ministers at the time ... to the Minister for Finance at the time.

**Senator Susan O'Keeffe:** Okay.

**Deputy Richard Bruton:** So, you know, there was a heightened awareness of this issue.

**Senator Susan O'Keeffe:** That's fine. Do you believe that while you were in opposition you had available research? Specialist technical areas, such as financial stability, did you have enough resources at your disposal, or was it up to you to create the resources?

**Deputy Richard Bruton:** No, I think we never had those resources and I do recall going way back, I think it was an academic in Trinity, Jonathan Westrup, I think was his name, who, you know, did pose the question: who guards the guardians, so to speak? If the Oireachtas is, you know, the body that, ultimately, has a role, how well-equipped is it to do that task? And I think it wasn't well-equipped, neither in having access to the information nor the analytical armoury at its disposal.

**Senator Susan O'Keeffe:** Finally, Taoiseach, if I may: yesterday, when Sean Mulryan gave evidence, in his statement he said that if you broke it down by political party 19.5% of his disclosed political donations were given to Fine Gael. And I am wondering are there any other property developers that you are aware of, that you can name, that would have made any donations to you? And did you ask property developers because I think he said he gave money when he was asked. If somebody came and said, "We're doing a fund-raiser", he would look and see whether he would give it. He didn't, I think, say that he got out of bed and gave the money, so to speak. So are you aware of any other property developers that would have given money to



Fine Gael in that time? And did Fine Gael actively seek donations from that sector?

**The Taoiseach:** As I said Senator, the vast majority of Fine Gael's funds have come and always come from our national draw and from my time as leader, anybody who wanted to participate in any social fundraising activities such as applied in those early years of golf classics or whatever could do so. I did not go on a campaign of asking developers or anybody else to say "please give me money." If they wanted to participate in a golf classic well then fine, all those things would have to be in accordance with the regulations of SIPO. But because of all of that perception and everything else put an end to all of that. If a deputy wishes to hold a golf classic now, they'll have a very minor nature and they have to be authorised by Fine Gael at national level. So if somebody wanted to hold a competition in Sligo or Donegal or Kerry or wherever they would have to have express authorisation to do that.

**Senator Susan O'Keeffe:** So you do not recall any other-----

**Chairman:** It's been answered. I'm moving on to another questioner.

**The Taoiseach:** No I do not. I have never been on the trail of developers or contractors.

**Chairman:** Deputy Michael McGrath.

**Deputy Michael McGrath:** Thank you, Chair. You're very welcome, Taoiseach and Minister. Taoiseach, in your witness statement, you state as evidence, as you put it, that Fine Gael opposed the main strands of Government economic policy, that Fine Gael voted against the budgets between 2002 and 2007. I have to put it to you Taoiseach: is it not the case that Fine Gael voted against those budgets, not because you were arguing that the Government was spending too much money but because Fine Gael was arguing that Government was not spending enough money on different areas in public services?

**The Taoiseach:** Well, of course, it is a political House as Deputy McGrath well knows and make your political points. But, like, for me, politics is first and last about people, and you cannot deal with those on the margins who are vulnerable unless you have a functioning economy. I will go back to the point, Deputy McGrath, indeed, before your time here as a Member. In respect of benchmarking, in respect of the decentralisation programme, the excessive waste, the lack of scrutiny, the extension of tax concessions by the Department of Minister for Finance just like that, that this was not the way to go and that you needed a more controlled more examining structure so that if you had a functioning economy, you could actually deal with those who were clearly out on the margins, vulnerable and-----

**Deputy Michael McGrath:** You are critical in your statement, for example, of the growth in public spending of €23 billion between 2002 and 2007.

**The Taoiseach:** Yes.

**Deputy Michael McGrath:** So apart from benchmarking, which was, I think, in the order of €1.3 billion, specifically what other areas of public spending which were significant did Fine Gael oppose at that time?

**The Taoiseach:** We had a long campaign in the Dáil about the so-called PPARS project. I think I called it PayPal earlier on; my apologies to PayPal, Chairman.

**Deputy Michael McGrath:** PPARS.

**The Taoiseach:** You had PPARS, you know, had the port tunnel, the overruns, you had grossly excessive costs, despite tenders and original estimates.

**Deputy Michael McGrath:** Well, in current spending, Taoiseach, in terms of social welfare-----

**The Taoiseach:** Well, the benchmarking process was the one-----

**Deputy Michael McGrath:** -----education, health, that's €1 billion. But of the other €22 billion-----

**The Taoiseach:** I remember being down in Killarney and saying this €500 million in extra charges is not on and I objected to that. I got a lot of stick for it within my own party at the time, indeed. But that and the general, sort of, looseness about public expenditure, without any, sort of, analysis of performance or delivery was an economy running out of control and it clearly went over the edge.

**Deputy Michael McGrath:** Can I put it to you Taoiseach that in opposition and as leaders of the Opposition, you have a great opportunity to set the political agenda. Now I have had a look back over Leaders' Questions, Private Members' motions from the Opposition and, for example, in 2005, 2006 and 2007, Fine Gael had 43 different Private Members' slots. You used them on a wide range of issues from accident and emergency, liquor licensing, animal remedies, health, greyhound doping, waste management, road safety - all important issues. But not once do I see a Private Member's motion, for example, on the issue of the system of regulating banks, on the increase in lending to property and construction or on what you might have regarded as excessive public spending. You had an opportunity to set the agenda and to challenge Government and to hold Government to account on these key areas, which were subsequently exposed, but you didn't use that platform, I submit to you during Private Members' or Leaders' Questions on a regular or consistent basis to pick up those issues.

**The Taoiseach:** Yes, well, I'll make the point to you, Deputy McGrath, the Private Members' business in the structure of the Dáil is one element for political parties to raise issues of either national or more local importance. I am not sure where the greyhound doping business came into the Private Members' but it is of interest to some.

**Deputy Michael McGrath:** June 2006.

**The Taoiseach:** But, obviously, both in my position as leader and, obviously, with Minister Bruton's position as financial spokesman at the time, you had other opportunities by way of priority questions, the presentations in respect of the budget. If you look at, I think, about 184 press releases from Minister Bruton, they were all about competitiveness, about effective spending, about analysis of that based on getting back to where we were at the end of 1997, export-led growth so that you could create jobs and people, obviously, could benefit from that. So I mean, you know, the Private Members' business is an opportunity for parties and, obviously, backbench Deputies and Front Bench Deputies want to raise issues that might be of more local than national importance. So from our point of view you've had the opportunity and different operations and a specific focus through the spokesman on finance on dealing with the issues of regulation. Minister Bruton met with the banks on occasion to discuss that and pointed these things out consistently in budgetary contributions about the growth in public spending, the focus on the housing and the property construction sector and where that was going to lead us to. I did the same myself, in 2003, 2004, 2005, 2006 and 2007 in terms of budgetary contributions.

**Deputy Michael McGrath:** You said that in the approach to the 2007 general election that Fine Gael accepted the independent economic forecasts by the Department of Finance and the ESRI, for example, but can I put it to you Taoiseach that not only did Fine Gael accept the economic forecasts, but you also contested the election, competing on the same ground as the outgoing Government parties. For example, the promises on 2,300 more hospital beds; free health insurance for every child under 16; 100,000 more medical cards; 2,000 more gardaí on our streets; increase the old age pension to €300; effectively abolish stamp duty; cutting income tax; an increase in current spending projected over the five years of €17.4 billion; a tax package of €2.4 billion. So not only did you accept the broad macroeconomic forecast but you were actually competing on the same ground of cutting taxes, raising public spending and investing in public services and in capital expenditure. Was it not broadly the same message?

**The Taoiseach:** I wouldn't paint the Fine Gael Party in the same box here as the noble party to which you belong yourself. We did point out and took a very principled stand on benchmarking and on decentralisation, at some political cost I might say, because populism was as rampant then as it is now and people seeing 53 locations for decentralisation on the back of an envelope said, "This is great." But actually, obviously, it was never delivered because, as you know, there were only 2,000 of the 10,000 jobs actually delivered through a system that hadn't even been thought out properly.

You make the point that, you know, we were advocating even for more public spending. Well, far from that, because a central focus of our opposition to Government was the massive waste and the inefficiency at Government level. Public spending, as I said, being increased without the ... any reforms in the public service and the budget process to which you were delivering for the people.

Back in 2002, I warned, in my response to the budget to the then Minister for Finance, Charlie McCreevy, that expenditure grew by 50% in two years, while revenue grew by 4%, no corresponding increase in public service over the same period. Pay costs up 11%, social welfare up 8%, rest of spending is up just 1%. These are stark figures, as you know.

In 2004, I said that taxation and spending have more than doubled in recent years. So, in 2005, I said that what happened yesterday was the injection of an unusually large amount of money in the economy - this, coupled with the money that would come from the SSIA's, will fuel a massive consumer spend which will inevitably lead to increases in costs and prices, as the spending Government spending follows political and election cycles, not economic cycles. And six months before the election, I said the budget continues the reckless expansion of Government taxation and spending without the necessary public sector reforms.

So while we did accept the figures from the Department of Finance and from the ESRI, obviously those growth figures that were projected could only apply if you had a focus in an economy that was competitive and lean, and focused on that.

**Deputy Michael McGrath:** Finally ... I just want to raise the issue of how open to scrutiny was the Government decision-making process. For example, was the Oireachtas sufficiently aware of the stakeholders with whom Government Ministers might have consulted in the pre-legislative stage? How was this information made available? And, in your opinion, were Opposition parties adequately consulted by Government, in particular, on issues which may have been deemed to be of national importance?

**The Taoiseach:** No. You see, we now have a situation where you have pre-legislative scru-

tiny for members of parties and none on all of these issues. The fact of the matter was, you went into the Dáil as an Opposition party. The Government had already done its deals with benchmarking, the process completely secretive, utterly removed from all of the scrutiny that would apply in the Oireachtas, and all of that paper was actually shredded, gone forever, never to be seen again. And the same applied through the social partnerships works. It's very different now, where you have public affirmation, public comment, public analysis and public scrutiny. So, in my view, an Opposition party was certainly labouring against a situation here where Government held all of the aces, held all of the opportunities to make its decisions removed from scrutiny of the Oireachtas in a way that's very different from what it is now.

**Deputy Michael McGrath:** We'll argue that point somewhere else, Taoiseach.

**The Taoiseach:** Indeed.

**Deputy Michael McGrath:** Thank you.

**The Taoiseach:** Thank you, Deputy McGrath.

**Chairman:** Thank you very much. Senator Sean Barrett.

**Senator Sean D. Barrett:** A Chathaoirligh. Just while you mentioned shredding, Taoiseach, are there any records of the night of the guarantee electronically or otherwise still around in the Taoiseach's Department?

**The Taoiseach:** The only file I saw on that, Senator Barrett, was quite an extensive file of sort of acknowledgments and emails, but there wasn't anything of real substance in the Department of the Taoiseach. Probably much more of that material is available in the Department of Finance.

**Senator Sean D. Barrett:** Yes. Mr. Dermot McCarthy-----

**The Taoiseach:** I'll just make this observation now, and I don't have, you know, detailed evidence of it, but I would think that while the current Government is being criticised for setting up an Economic Management Council, which myself and former Tánaiste Gilmore put in place, it did mean that there was regular discussions between the parties in government and the Departments about issues of the day that were critical, and God knows, we had enough of these over the last number of years, particularly in the early part. I would be maybe concerned that there wasn't the level of engagement, you know, driven from the top between the Departments and, therefore, the necessary ... the appropriate senior civil servants. I'd like to have seen more of that because you have that now. If there's something going on, people are always engaged to, kind of, deal with the challenge, or whatever the issue might be.

**Senator Sean D. Barrett:** The thought I had ... throughout there, Taoiseach, was from Mr. Dermot McCarthy, the former secretary, who did raise the prospect that there were some material, perhaps on electronic records, from the night of the guarantee. That's why I asked you that.

**The Taoiseach:** Yes, and I've sent those on to one ... I think ... Deputy Martin, I think, asked for that from me in that whatever correspondence is there has been sent on long ago.

**Senator Sean D. Barrett:** Thanks, Taoiseach. And the top of your page 5, in your introductory remarks, you said, "the absence of any requirement at that time to conduct and publish cost benefit analyses on tax shelters and major infrastructure projects and to subject all major expenditure programmes to regular review;". And indeed Mr. Bruton says, "questionable proj-

ect selection". Can we bring forward the Government economic evaluation service and have it feeding into Parliament and informing the decisions? And, in particular, could this inform the capital expenditure programme that's imminent, I think, in a matter of months, that it should be soundly evaluated rather than based on, you know, historical documents left around Departments, or people pushing their own pet projects?

**The Taoiseach:** Well, you're aware of all the ... the way that budgets were always drafted for years where secrecy always applied, and the Minister for Finance of the day came in and read out the budget to the House. We ... the spring economic statement, which is introduced now by the Government, sets out the parameters of the budget, and we're not going beyond that, and that's a €1.2 billion to €1.5 billion range divided on a 50:50 basis between both the Minister for Finance and the Minister for expenditure, and Government obviously will reflect on that.

The national economic discourse down in Dublin Castle recently, not only allowed for people to engage in public, but also for them to send in their propositions in respect of the forthcoming budget in October, and that will include, I assume, their, you know, propositions in respect of capital expenditure and so on. So the capital programme will go out ahead for a number of years. It will involve considerable expenditure, and clearly there are some issues that must be dealt with. For instance, you know, the ... in this major city here, the situation regarding transport has got to be addressed.

So, we've had the opportunity to discuss the spring statement; you have regular sessions in the Dáil, be it on housing or other areas of the economy, and when the Government do publish its capital programme, Senator, that will be available and obviously will be discussed and debated as well.

**Senator Sean D. Barrett:** But the Wright report did draw attention to the ... an expertise deficit in the permanent Government, and will this be addressed by the Government economic service?

**The Taoiseach:** Well, in the Department of Finance now, the unit is open for all political parties and individuals and groupings to have completely independently verified assessments of the costs of programmes and proposals that they're putting forward. Obviously, you have to have an election next year, and that facility is already, I assume, being used by different parties. I'd like to think that we can continue to reform the system, Senator, so that when the opportunity presents itself that there can be far ... you know, to the best extent possible, openness and transparency about the issues of the day that are going through in a way that has never been done before.

**Senator Sean D. Barrett:** And how would you integrate the Oireachtas into that process, Taoiseach?

**The Taoiseach:** Well, I think you can do it either through the ... we've started with the pre-legislative scrutiny of the Oireachtas committees available to all the Deputies and Senators, and I would assume that either through the appropriate finance committee or the scrutiny committee that these things can apply, and rightly so, because it's all taxpayers' money and the people's interest. I'd be of strong supporter of that.

**Senator Sean D. Barrett:** Thank you very much. Tá an t-am thart. Thanks Chair.

**Chairman:** Deputy Eoghan Murphy.

**Deputy Eoghan Murphy:** Chairman, and thank you to both the witnesses. A lot of the areas I wanted to discuss have already been raised, so if I'm repeating myself please just let me know. Minister Bruton, in relation to regulation, in your opening statement, on page 4, you talk about a new structure for the Financial Regulator introduced in 2002. Is it true to say that you didn't feel it was a good structure for regulation, and for overseeing financial sector in Ireland?

**Deputy Richard Bruton:** Yes, I think ... well first of all, I think the biggest objection I had was that we hadn't stress tested the actual powers, the capabilities, the method of overseeing the financial institutions. There was a bigger debate about whether it should be ... the regulator should be independent, stand alone, or be part of the Central Bank, and that dominated, if you like ... that institutional debate dominated the conversation, where I thought, personally, that the more important thing was were they fit for purpose, were they capable of overseeing the sort of financial problems that were already evident. But, again, we would have favoured a single ... a stand-alone regulator, an independent regulator. But I think that was less central than the issue of their capabilities and were they robust.

**Deputy Eoghan Murphy:** So, I mean, you had concerns about the model and you had concerns about their capabilities, so why did you trust their work?

**Deputy Richard Bruton:** Well, I had a lot ... I mean, the period after that was a sustained issue of ... a period of calling into question as to whether they were up to scratch and we saw a period when, you know, a number of practices were revealed - of overcharging and so on in the banks - and it always appeared to me that the regulatory system arrived breathless and late, as they say, rather ... and they responded to whistleblowers or some revelation in the ... in the press that led to the issue. So that continued to leave a question mark as to whether the system was sufficiently forensic to do the job.

**Deputy Eoghan Murphy:** Okay. When it comes to the 2007 election manifesto, I can't find anything in it relating to prudential regulation ... the need to improve our prudential regulation of the banks or really anything about the banking sector at all, in terms of substance. So, why not, if you had these concerns from 2002?

**Deputy Richard Bruton:** Yes, it's a valid point. I suppose we didn't have a detailed, if you like, alternative scrutiny mechanism for overseeing banks and our policy at the time, in 2002, was we needed a robust evaluation of how fit for purpose it was. So, that was a question of doing a detailed assessment. It wasn't a sort of a policy change. Personally, I'm not sure that the structures were at the source of the problem; it was the lack of forensic investigation, the rather cosy relationships that were there and so on. Those were the weaknesses.

**Deputy Eoghan Murphy:** So, what was, I mean, Fine Gael's reaction then to Northern Rock? Again, the concerns are there and Northern Rock happens, it's queues in the streets in Dublin; did you approach the Financial Regulator or Central Bank directly at the time?

**Deputy Richard Bruton:** Well, I obviously took the issue up immediately with the Minister for Finance and I questioned the Minister for Finance - and I have it there somewhere - you know, in detail about whether, you know, a failure of a bank, were we in a position to deal with that? How confident was he that there were no such vulnerabilities in our system? Had we the proper powers and capabilities in place? So, those questions were asked and they were, indeed, also asked of the Central Bank and the regulator. The assurances were given that they were.

**Deputy Eoghan Murphy:** But there was no way - excuse me - for the Oireachtas to di-

rectly scrutinise their work or hold them to account?

**Deputy Richard Bruton:** No. I mean, obviously we didn't have access to the financial institutions and I think, as Senator Susan O'Keefe said, we probably didn't have the forensic ... well, perhaps Deputy O'Donnell did, but we didn't generally have the forensic capabilities of investigating, even if we had them, but we didn't have them.

**Deputy Eoghan Murphy:** Okay. Taoiseach, did Fine Gael know about the dangers to the economy going into the '07 election? Did it see the risks ahead in terms of the banking sector, or the property sector?

**The Taoiseach:** Yes, if you look back at the statements from 2002 onwards, all of the budgetary statements and the major economic statements that were made. Deputy Bruton - as he was then - pointed out consistently of the bubble that was forming around the ... around the housing, property and construction sector and he had consistently questioned Minister Cowen in respect of bank lending, the stress testing that should be carried out here. But let me go back to the dangers that we were pointing out consistently of benchmarking, of social partnership, of overruns, of inefficiency, of a situation where you were not getting the value for money that people, you know, actually needed in respect of what they were spending. I pointed that out consistently.

**Deputy Eoghan Murphy:** I don't mean to cut you short, I'm short on time myself. I'm talking, though, about 2007 and the Opposition ... and Fine Gael, as the main Opposition party, going to the people. Did it raise ... or, sorry, did it actively decide not to raise the dangers of the economy or the potential risks that were coming down the line as part of that message to the people that goes on in a campaign?

**The Taoiseach:** Well, I ... we did actively point out that we were heading in the wrong direction and that we needed to get back to a point where you were lean and competitive, where you were export-orientated, because you were never going to be able to deal with the social consequences of continuing to have public spending increasing at the rate that it was, of borrowing to continue to do that and, therefore, putting your vulnerable elements of your society in really ... really serious difficulty. So, our thread, right through from 1997, was you had a functioning economy, competent management of that economy and, therefore, the opportunity to spread the fruits of that economy to where they were needed most - to the vulnerable people. And, in opposition, it continued for a while until the focus became on the property sector in particular. So, in '03, '04, '05, '06 and as we prepared for '07, Fine Gael had consistently pointed out the dangers of where we were.

**Deputy Eoghan Murphy:** Okay. We have the liquidity problems in the banks then coming to light in '07. We come then into September 2008 and, looking at the Dáil records immediately after the night of the guarantee, we see Michael Noonan, in the Dáil, questioning the solvency ... the potential risk to solvency of the banks. Why didn't Fine Gael, as a party, put that position forward? And why did Fine Gael come to support the decision, the guarantee? Did you consult with Labour and what did you make of their decision not to support the guarantee?

**The Taoiseach:** Well, as I said, when the question of the guarantee came to me first of all in the morning, my response was you needed, you know, a functioning banking system as the life-blood of the economy and the guarantee that was ... that was being put up by the Government at the time, we needed to know the conditions of that. Obviously, Fine Gael took a view here that we would support the banking guarantee for that reason - that the economy and business

and trade is where you need to be - and obviously the issue was argued in the Dáil. I remember the question that Deputy Noonan asked in respect of liquidity ... liquidity or solvency. We supported the business so that we'd be able to ... that banks would be able to open the following morning, that there were three substantial buffers totalling €80 billion that would be called upon before there would be any exposure to the taxpayer - that was, shareholders' funds, ECB funds and a future levy on the banks similar to the insurance levy, which, in the words of the Taoiseach in the Dáil, he said would pay for the difference through a levy over time, rather than expecting the taxpayer to do so. Obviously, the situation has changed now following the discussions with Europe. And, secondly, that the Government would return within three days with details of the new regulatory scheme that would govern the banks in the post-guarantee world. We also sought, from our point of view, through Mr. Bruton, amendments and assurances in relation to the ... that the regulatory system would be improved substantially, that there would be more detail on the powers granted to the Minister under the Act and how we plan to use them to create an improved regulatory situation, that the guarantee would cover deposits and bonds and not other obligations that were introduced into the Dáil debate, that there would be restrictions on payment of dividends and on bonuses, that there would be improved oversight - with three people appointed, nominated by the public accounts committee - that there would be representation by the Government on the boards of the banks covered by the guarantee, that there would be codes of practice for risk committees and that there would be ... the importance of continuing to keep credit flowing into the economy. So they were the reasons we took the view that you needed a banking system that functioned, therefore, you needed to-----

**Deputy Eoghan Murphy:** And just a final-----

**Chairman:** Wrap up, Deputy, because you're over time.

**Deputy Eoghan Murphy:** Thank you, Chair. Just then, if you felt that was the responsible position in terms of the Oireachtas, in terms of opposition, what did you view then of Labour's position not to support the guarantee?

**The Taoiseach:** Well, obviously, the Labour Party were perfectly entitled to ... to their view, as a political party, on where they stood on it. I think ... I think Labour wanted to see, I think, all of the details before they would make a decision on the guarantee and obviously Fine Gael took a view that this was a real emergency here, that you were in a really difficult position, that you needed a functioning banking guarantee system and banks to be open the following morning. I mean, I've said this publicly before, very shortly after the election, of which my own Government was elected, we were told that you were very close to the edge of that precipice; that it might be ... it might be akin to what you've seen in-----

**Deputy Eoghan Murphy:** In '08?

**The Taoiseach:** -----in Greece recently, in terms of liquidity and capacity for people to draw money from banks and do business. So we took the view, "This is a real emergency here." These are the things that we looked for. There were elements of the guarantee, the buffers that were in there, as I've said; the return of the Minister within three days with the new regulatory powers and all the rest of it. Fine Gael took a view, as a political party, "What are you going to do here? This is a really serious situation." So, we supported the guarantee; obviously the Labour Party took a different view and were quite entitled to do so.

**Deputy Eoghan Murphy:** But were ... I mean, did you support the guarantee with those views taken on board by the Government or regardless of whether they were taken on board or



not?

**The Taoiseach:** No, we wanted these things put in place that would give far greater scrutiny, far greater authority to the Minister for Finance-----

**Chairman:** Come on now, Deputy Murphy.

**The Taoiseach:** -----and those details would be important, from our point of view.

**Deputy Eoghan Murphy:** Okay.

**The Taoiseach:** But the immediate crisis was that there was an €80 billion, three-buffer zone here and that the Government would come back within three days of the details of the new regulatory regime to be outlined in the House by the Minister for Finance.

**Deputy Eoghan Murphy:** Thank you.

**Chairman:** Senator Marc MacSharry.

**Senator Marc MacSharry:** Thanks, Cathaoirleach, and just to say, that was 12 minutes. I have five questions that I wish to ask.

**Chairman:** Sure.

**Senator Marc MacSharry:** And the first four of those only require a “Yes” or “No” answer. They’re all for you, Taoiseach, and the last one might require a little bit further. I’d ask for the indulgence of the Chair. Can I ask you, Taoiseach, “Yes” or “No”, that in your pre-budget considerations, commentary, proposals or, indeed, manifestos in the relevant period, did you ever propose expenditure cuts and tax increases?

**The Taoiseach:** Yes.

**Senator Marc MacSharry:** Can you give examples of that for us?

**The Taoiseach:** Yes, we proposed ... we’ve done this now, with broadening the tax base in respect of property charges and water charges-----

**Senator Marc MacSharry:** No, no. I’m talking about the relevant period.

**The Taoiseach:** Yes.

**Senator Marc MacSharry:** In the run-in to the election in 2007-----

**The Taoiseach:** We proposed the expend-----

**Senator Marc MacSharry:** -----Taoiseach?

**The Taoiseach:** Yes is the answer. We proposed the expenditure cuts, in particular-----

**Senator Marc MacSharry:** In what?

**The Taoiseach:** In relation to the benchmarking process, in relation to the whole idea of what was coming through-----

**Senator Marc MacSharry:** Okay. And what portion of the €17.4 billion increase in current expenditure outlined in the Fine Gael manifesto? How could you say that that constitutes

a proposed decrease in expenditure, Taoiseach?

**The Taoiseach:** Well, the position was that we accepted the figures for growth from the ESRI and the Department of Finance.

**Senator Marc MacSharry:** You were proposing the reduction of tax to 18%-----

**Chairman:** That's not enough time for a response, Senator. You-----

**Senator Marc MacSharry:** -----how could that be constituted as an increase in taxation?

**The Taoiseach:** You're asking me five "Yes" or "No" answers, and you're making a statement here-----

**Senator Marc MacSharry:** No, but it's just I've watched an element of, you know, political manoeuvring over the last number of questions and I just want to get specifically to the facts.

**Chairman:** Sorry-----

**The Taoiseach:** The first "Yes" or "No" answer, is that, yes, we did propose cuts in public expenditure-----

**Senator Marc MacSharry:** But just not in the manifesto?

**The Taoiseach:** In social partnership, in proper analysis of major infrastructure overruns and in a situation where there was no scrutiny or delivery in terms of what people were expected to ... for their money. The answer is that-----

**Senator Marc MacSharry:** Okay, I'll move on there. Taoiseach, how is it credible for you and your colleagues, with clean hands, to criticise the previous Government on expenditure and taxation, when you called for more expenditure and less taxation? I mean, how is this credible? I mean, would your policies of the day not have led to an even harder landing in the crisis?

**The Taoiseach:** I've dealt with those questions-----

**Senator Marc MacSharry:** No, "Yes" or "No"? I'd like it again, because I mustn't have been listening.

**Chairman:** I'll afford you plenty of time, Senator. There'll be no difficulty there. Taoiseach?

**Senator Marc MacSharry:** Thanks, Chairman.

**The Taoiseach:** Well, we've dealt with that question earlier on, that ... I don't accept that the model that we were following here was an economic model where you had competitiveness central to what you do, you had a lean focus on value for money. And we repeated that on so many occasions and go back again to the major issues of the way Government conducted its business - social partnership, secrecy removed away from the Oireachtas scrutiny, the whole idea of decentralisation costing billions, and benchmarking with no analysis for reform or delivery in terms of the taxpayers' money.

**Senator Marc MacSharry:** As my colleague has said earlier, and he's outlined for you that those particular measures would have been a couple of billion. Nevertheless, your manifesto, policy and all of your line spokespeople and shadow Ministers of the day were calling for more

expenditure and less taxation in all those Private Members' motions on animal health and all those vital issues of the time, nothing on regulation, though I did note, from the manifesto in 2007, a 25% reduction in the regulatory burden. I mean, is it not fair to say, Taoiseach, that what we're talking about in here is a fabrication of the facts of the day? Would your policies not have led-----

**Chairman:** Okay-----

**Senator Marc MacSharry:** -----to a harder landing?

**Chairman:** Senator-----

**Senator Marc MacSharry:** "Yes" or "No"?

**The Taoiseach:** No.

**Chairman:** Senator, the question is leading-----

**Senator Marc MacSharry:** No, they wouldn't? That's fine. Given your criticisms about the social and recreational contacts between previous Governments and developers, the Galway tent which we have spoken so much about in here and so on, can you inform the committee if you have ever accepted hospitality from a developer in the form of transport by road or air?

**The Taoiseach:** What do you mean by road? You mean getting a lift from somebody?

**Senator Marc MacSharry:** I'll ask the question again. Did you ever accept hospitality from a developer in the form of transport by road or air?

**The Taoiseach:** Deputy, I've travelled so many places by road and air over the years. Tell me what you're taking about.

**Senator Marc MacSharry:** No. I'm merely asking the question. Have you ever? So it's a "Yes or "No", I think.

**The Taoiseach:** Does that mean that if I travel from Dublin to Mullingar with a developer, that I've to answer "Yes"?

**Senator Marc MacSharry:** I presume it does. I don't know. You tell me. Did you travel with developers? Did you travel with developers-----

**The Taoiseach:** I think that-----

**Senator Marc MacSharry:** Did they give you lifts?

**The Taoiseach:** I think-----

**Senator Marc MacSharry:** Did they bring you on planes?

**The Taoiseach:** I always had my own car. I never had a plane and I never will have one.

**Senator Marc MacSharry:** So is the answer "No" or "Yes"? I mean, it's a simple question, Chairman?

**Chairman:** The witness ... you're entitled to ask a question and-----

**The Taoiseach:** You must have a basis for your question.

**Chairman:** -----the witness is entitled to answer it.

**Senator Marc MacSharry:** The basis for the question is, and we've been consistent, Taoiseach ... and I'm sure your advisers can tell you that we've asked these kinds of questions of everybody of a political nature in here, from all parties and none. So I'll ask the question again. Have you ever accepted any hospitality from a developer by way, as you put it yourself, a lift in a car, a flight on a plane, a lift on a private jet or so on, "Yes" or "No", a helicopter? "Yes" or "No"?

**The Taoiseach:** Well, can I ask you what you ... define what developer-----

**Senator Marc MacSharry:** No, I'm asking the questions, Taoiseach.

**Chairman:** Sorry, if I just can intervene. The legal advice I have is that what ... the Dep .. or Senator can ask the question if he wishes. "Yes" or "No" is not ... is a direction to tell the witness how to respond. The witness is entitled to make his own position on how they will respond. And to assist in getting the fullest answer possible, if there are particular matters rather than generality, if that can be put, it would certainly help the situation here.

**Senator Marc MacSharry:** Okay, I appreciate and note the legal advice. Having said that, Taoiseach, I'm putting the question the same way. "Yes" or "No", the affirmative or the positive, have you ever accepted hospitality from a developer by way of transport, by road or air?

**The Taoiseach:** Deputy, like, you know, during the course of my time as Opposition leader, we would have hired transport, air transport occasionally, to get from one part of the country to the other. I have never gone around asking developers, saying, "Would you give me a lift here, there or everywhere?" I've always tended to have my own transport, and like, I can be clear on this. I have never sought hospitality or transport from a developer for that purpose. Like, this is ... you know ... if I say to you, "I travelled 200 yards in a car with a developer." What do you mean by that? He's a contractor who builds five houses or 200 houses or 5,000 houses or whatever. This is ... the question is ridiculous. If you have an issue, then you should-----

**Senator Marc MacSharry:** Chairman?

**The Taoiseach:** -----tell me directly.

**Senator Marc MacSharry:** Chairman?

**The Taoiseach:** Because I mean, I ... you know I-----

**Senator Marc MacSharry:** I mean, the question is ridiculous?

**Chairman:** Well, the-----

**The Taoiseach:** I've travelled on thousands of occasions-----

**Senator Marc MacSharry:** Surely, I can have the protection of the Chair and of the legal advisers to the committee?

**Chairman:** I've given my legal advice on this. The question has been made. The witness can respond to it and-----

**The Taoiseach:** I'll-----

**Chairman:** -----unless we can move into a specific on this, I don't know. I think we will just be in a circular place on it, okay?

**The Taoiseach:** Chairman, I would assume that the Senator, in asking his question - perfectly entitled to ask the question - that-----

**Senator Marc MacSharry:** Thank you.

**The Taoiseach:** -----that, obviously, he's got some basis for it. Let me be quite clear to your committee. I have never been in the business of looking for hospitality or transport from people by air or by road. We've tended to travel on roads-----

**Chairman:** Senator MacSharry?

**Senator Marc MacSharry:** We'll move on. I've two further questions. Taoiseach, isn't it true that, from the outset, that you have potentially endangered the integrity of this inquiry by loaded comments about "the axis of collusion between Fianna Fáil and the banks?"

**The Taoiseach:** No.

**Senator Marc MacSharry:** Okay. Final question. Why did you change the configuration of the original committee when the Government did not secure a majority?

**The Taoiseach:** That was because of a decision taken by the Senate, of which you are an esteemed member yourself and, obviously, regularise the position from what was originally intended ... to what was originally intended.

**Senator Marc MacSharry:** Did you contact the leader of the Senate from the United States, where you were on a trip at the time, and say to him, "Take MacSharry out"?

**The Taoiseach:** I would never have said that. I would never say, "Take MacSharry out." I've had many discussions with your good father about politics and the west of Ireland and all the rest of it. And far be it from me to attempt to make a decision that people have as their democratic right at the end of the day. What I did want to do was ... we had set up from ... and this is very ... you're an independent committee ... to set it up with a particular structure. That intended structure was somewhat changed by a decision in the Senate and I just wanted to put it back to what it was originally intended. And that did not mean the demise of Senator Marc MacSharry.

**Senator Marc MacSharry:** Yes, and just very finally, can I ask, that in that context, did people in Fine Gael and Government parties, other than Senators, prescribe what was to happen in that process-----

**The Taoiseach:** No-----

**Senator Marc MacSharry:** -----such as yourself, for example?

**The Taoiseach:** No, I ... we had set out numbers to attend on the committee of inquiry into-----

**Senator Marc MacSharry:** Nine, and then you made it 11, yes. Why was that?

NEXUS PHASE

**Chairman:** Allow him to answer now, please, Senator.

**The Taoiseach:** Because a decision was taken, I think, in the Senate-----

**Senator Marc MacSharry:** All right.

**The Taoiseach:** -----that changed that intended structure. So I wanted to regularise the position and that was the reason why.

**Senator Marc MacSharry:** To secure a Government majority-----

**The Taoiseach:** But you've acted-----

**Senator Marc MacSharry:** -----or not?

**The Taoiseach:** As God is my judge-----

**Senator Marc MacSharry:** I mean, tell me now. If that's not the reason, it's not the reason but-----

**The Taoiseach:** As God is my-----

**Senator Marc MacSharry:** -----I'm asking you: was it the reason?

**The Taoiseach:** As God as my judge here, Senator, you ... the four members from my party who attend here, I have never spoken to them about anything to do with your commission of inquiry. You are entirely independent and I wrote to them to that effect, and they can confirm that to you.

**Senator Marc MacSharry:** Now that there's a majority for the Government, of course.

**Chairman:** Well, there is a majority-----

**The Taoiseach:** But you're not operating on that basis. I assume-----

**Senator Marc MacSharry:** Oh no.

**The Taoiseach:** -----you do your business your own way.

**Senator Marc MacSharry:** Everyone leaves their jerseys at the door, Taoiseach.

**The Taoiseach:** But, as I say, far be it from me, Senator ... for you to ask me a question ... would it be my intention to take out another west of Ireland man from the job that you're doing. That's not ... that's the ridiculous question.

**Senator Marc MacSharry:** Thank you, Chairman. Thank you, Taoiseach.

**Chairman:** Thank you very much, Senator, and I want to bring matters to a conclusion, if I can. And if I can put a question to yourself, Minister Bruton. Very simply, as Opposition spokesperson for finance, what level of contact did you have yourself with the banking sector during the growing crisis years, including that of the IFSC? During that period of time, were you subjected to lobbying by interest groups or what meetings would you have had with those groups or sought from them and how did you devise what you considered to be appropriate policies for that sector? And I've one or two supplementary questions on that and I'll take that as the general first, Mr. Bruton.

**Deputy Richard Bruton:** No, I don't think I had any meetings at which there was lobbying for some change in the regulatory structure or the banking regulation from the banking system. You know, I developed most of my policy from talking to independent economists, academics. You know, that was really the source, you know, to provide some outside insight into this system and that's where, you know, a lot of our critique came from. A lot of the evidence of excess, you know, profit taking within the banks came from outside independent studies. So, no, it wasn't ... there wasn't a big lobbying campaign going on, and we introduced no measures to favour financial institutions in respect of it.

**Chairman:** One of the propositions that this inquiry will have to ... will test and has been testing is the following: that principles-based regulation was a universal framework in which all OECD countries and associated ... operated within, but a proposition could be made that light-touch regulation was an interpretation of it in this jurisdiction that made principles-based regulation ... or principles-based regulation as did ... the operation, somewhat different and that the establishment of the IFSC created a particular dynamic around that - that everybody wanted to see the IFSC succeed and a message had to be sent out to that sector. Were you somebody who promoted, during your term in opposition as a finance spokesperson, that Ireland was a place to come to where you would get soft-touch regulation or light-touch regulation?

**Deputy Richard Bruton:** No. I mean, I played no such role in opposition. I mean, I was not part of any promotion of the IFSC - good, bad or indifferent. I mean, I think, to be fair though, the regulatory failures were not in respect of the international financial institutions. By and large, the regulatory failures were, you know ... bog standard domestic banks was the problem that prevailed. I think, you know, principled regulation, without a credible threat of discovery and enforcement doesn't work, you know, so that's where the weakness was. There wasn't a credible threat of discovery and enforcement and I think that's where things came unstuck in terms of the model that, you know, you're talking about.

**Chairman:** Okay. I had one or two other questions but Senator MacSharry actually took them for me, so I'll actually move on to the next ones. The issue of ... finally, is the issue of the soft landing and the general political consensus that could be proposed or suggested that everyone was very much in a groupthink, both Government and Opposition ... that everybody ... that, okay, there was going to be a turndown, but it was going to be a soft landing in ... and I know, as Minister for Finance, that you would have access to Finance ... to senior Finance officials. that would be a common practice in opposition during that time in ... and any Opposition spokesperson would have access to the general secretary of a given Department. This committee has yet to establish whether there was any evidence of a soft landing within the Department of Finance. Did you ever test that evidence - to go and see if that was there?

**Deputy Richard Bruton:** Well, I think our belief was ... you know, we weren't economic forecasters so we accepted Finance and ESRI forecasts that prevailed at the time but it was certainly our view that in order to realise that sort of growth, you had to retool your economy very considerably and a lot of our emphasis was: how do you address the vulnerabilities that we had seen build up in the economy? So our focus was, you know, we need to fix a number of things to sustain that progress. We weren't forecasting a hard landing. We were saying, you know, "We have allowed vulnerabilities grow up here. We need to manage those vulnerabilities in terms of enterprise or restoring our export base-----"

**Chairman:** But I-----

**Deputy Richard Bruton:** -----addressing our competitiveness", and that was the focus of

our approach.

**Chairman:** I'll return to the root of my question though, Mr. Bruton ... or, Minister Bruton. As a ... as if ... the senior person in opposition in any political party other than the party leader is the finance spokesperson. It is the person who engages in all the big operations inside in the House. You do it for Question Time, you do it for parliamentary questions, Ministers' question time, all the rest of it, and that position is also based upon ongoing contact, which ... I assume that you would have had contact with senior Department of Finance officials at the time or you would have had regular contact with them or sought regular contact. Would I be right in that regard, yes?

**Deputy Richard Bruton:** Yes, but that would be around, like, finance Bills-----

**Chairman:** Of course, yes.

**Deputy Richard Bruton:** -----you know, individual measures, not around-----

**Chairman:** Okay.

**Deputy Richard Bruton:** -----you know, global economic, sort of, forecasting.

**Chairman:** The general consensus was, particularly in 2006 onwards, that there was going to be a soft landing. At any time, did you ask the Department of Finance to produce evidence to you, that was of their own manufacturing, that there was a soft landing coming?

**Deputy Richard Bruton:** No, I didn't. I mean, I suppose what we diagnosed was that what needed to be done was to rebuild our export base, to, you know, look afresh at the way spending was being undertaken. It wasn't a question of spending cuts as a lot of people talk. I mean, the economy was growing in those years. It could afford economic ... a growth in public spending programmes. The problem was that spending programmes grew at twice the rate that was affordable and they didn't deliver value. So we looked beneath that bonnet and say "Why is that happening?" So we looked at, you know, issues like benchmarking, looked at issues like how ... how are budgets put together? What accountability is there for outcomes within the system? Are individual public servants or Ministers made accountable? When they say they will do something, is there any day of reckoning? We found that that was all absent and, you know, so we were-----

**Chairman:** I just ... I appreciate all that-----

**Deputy Richard Bruton:** -----delivering-----

**Chairman:** -----but I just need to confirm one thing and I'm not asking you a "Yes" or "No" question. I just need you to confirm for me or not was ... were you provided of ... this is evidence owned and supported by the Department of Finance, not analysis of external views, but a ... supporting evidence or evidence-based material of the Department of Finance, was it provided to you, or did you seek it, of a soft landing?

**Deputy Richard Bruton:** No, I mean, we would have accepted Finance publications as ... as what represented their view. We didn't, you know, believe that there was some alternative view in the Department of Finance that wasn't in their published reports. So-----

**Chairman:** Okay.



**Deputy Richard Bruton:** -----you know, we didn't go looking for officials to second-guess their public reports. I mean, I suspect if we had, we would have been told that, you know, "Our advice is for the Minister, it's not for the Opposition and this is the published material that provides, you know, our considered view of where the economy is going."

**Chairman:** Okay.

**Deputy Richard Bruton:** So, you know, I don't think such ... you know, such briefings weren't being made available. Effectively, counter briefings to what Government was saying was its view of the world wasn't available.

**Chairman:** All right, I'm going to move to wrap up. Deputy Pearse Doherty. Deputy, you've three minutes.

**Deputy Pearse Doherty:** Go raibh maith agat. Mr. Kenny, when it was put to you by Deputy McGrath about that your Government advocated increase in expenditure, you replied saying, "Far from that." I would like you to refer to Vol. 2, page 78, and if you would indulge me, we'll actually look at some numbers, and I would ask you then to show me how you didn't advocate increased expenditure. What I want you to look at, in particular, is ... this is your election manifesto of 2007, which shows clearly that, under Fine Gael, you planned to increase current expenditure by €17.4 billion over the five-year term and capital expenditure by €3.4 billion in excess of that, which is in excess of €20 billion over the five-year term, which is very similar to the €23 billion that you criticised the Government for spending over the previous five-year term. Do you accept, first of all, that under the Fine Gael proposals you were going to increase current voted expenditure by €17.4 billion from 2007 to 2012. Just if we can get that confirmation we can then move on to ... To give you the figures it goes from €37 billion up to €54 billion.

**The Taoiseach:** I made this point to you before, like. What we pointed out here is that in our analysis of the economy you had gross wastage of money - utter inefficiency. You had systems that were neither scrutinised nor analysed and were done away from any accountability of the Oireachtas. And these projections, based on the figures from the ESRI and the Department of Finance were predicated on knowing that you couldn't achieve them unless you brought back your economy to being competitive and-----

**Deputy Pearse Doherty:** So when you sorted out all the waste and all the efficiency and all the competitiveness that you laid out in your manifesto, you still planned to increase current expenditure by €17 billion, do we accept or deny that fact?

**The Taoiseach:** The figures speak for themselves but the-----

**Deputy Pearse Doherty:** Okay.

**The Taoiseach:** -----the underlying issue is, as I've said, since 1997 we were focused on running the economy competently, had incompetence in the management of the public finances, and weren't being able to create that.

**Deputy Pearse Doherty:** That was just the first question. So you do accept that you were going to increase current expenditure by €17 billion. If we go to the bottom of that, because you were very critical of the Government in terms of your statement where it says ... where you say on page 5 of your statement but I'll just quote it - so, if we can leave the figures up on the screen - you say, "The average annual growth rate at just under 10% per year was roughly twice the underlying potential growth of the economy." If you see on this table down below in terms

of what you were planning over the five years ahead, you were planning to increase expenditure by 8% while the growth rate was 4.2%. Would you agree that that was exactly what the Government had done the previous five years where the growth rate was 5% and they increased expenditure, on average, 9.8%?

**The Taoiseach:** No, I don't accept that because we had a very different financial model here.

**Deputy Pearse Doherty:** Okay, I'm not talking about the financial model, I'm talking about the numbers.

**The Taoiseach:** But the figures that we set out there-----

**Chairman:** We'll bring it back in, Deputy.

**The Taoiseach:** -----were predicated on running public finances competently, running an efficient economy, and focusing on where we should be focused, on getting value for the people's money, being able to have a situation where you didn't tax employment out of existence and where you were able to use the fruits of that economy to help the vulnerable and the disadvantaged. So that's not in those figure, but that was the principle and the thread running through Fine Gael's economic policy since the 1990s and before. And as I said if that had been applied right through the 2000s, we wouldn't have ended up in the mess that we ended up in.

**Deputy Pearse Doherty:** Well, if that was applied, what is happening at this point in time even to your policy, you wouldn't be able to implement that. But I want to go back to my core points here. The point I've made in looking at the figures, and let's talk about the figures Taoiseach, what Fine Gael was advocating at that time was to spend twice of what the growth rate was in the economy. The growth rate you were projecting was 4.2%, you were increasing net voted expenditure by 8% which was what the previous Government had done for the five years previous, where the growth rate was an average of 5% and they increased net voted expenditure by 9.8. Do you accept that that is what you were planning in terms of the macroeconomic figures?

**The Taoiseach:** I've said that the programme for the manifesto speaks for itself. But I've already said to you that Fine-----

**Deputy Pearse Doherty:** Is that a "Yes" or a "No", just?

**Chairman:** Give a bit of time, Deputy, to respond.

**The Taoiseach:** -----Fine Gael's philosophy was to deal with cutting costs and running the business far more efficiently. We had proposed index links capped on charges from State bodies, we had proposed a 25% cut in Government-imposed red tape, we had proposed national skill and uptraining for 100,000 to be able to cater for the changes that were coming. We had proposed a new network telecoms so that people would be able to do their business in any part of the country and we had proposed serious powers for regulators to reduce costs in regulated sectors like energy and telecoms. So the figures were predicated, Deputy Doherty, on running that-----

**Deputy Pearse Doherty:** I'm not adding a supplementary, I'm actually at the original question. Because the Taoiseach can read the entire 90-page manifesto if he wants, I want to focus into two lines and four numbers. And the question is very simple. Because the document

doesn't speak. You're the Taoiseach and I want you to confirm, is the interpretation that I have of the document, is that the Fine Gael plan in terms of expenditure over the five years was to increase expenditure at a rate twice of what the growth rate was in the economy, which was in line with what Fianna Fáil had done in the previous five years where they increased expenditure twice in line of what the growth rate was in the economy.

**The Taoiseach:** I'll repeat for you again, Deputy Doherty, Fine Gael had a very different economic model than Fianna Fáil and in accepting the predictions or the projection from ESRI and from the Department of Finance, we understood that you couldn't achieve those rates without having a competitive, focused, regulated, scrutinised and accountable economic system. And that's what our model was. It was right through from '97, right along in opposition and now in Government we're implementing more of what should have happened back in the mid-----

**Deputy Pearse Doherty:** Taoiseach, there's been a lot of-----

**The Taoiseach:** So you have your-----

**Deputy Pearse Doherty:** Some of your previous comments have been put to you in term of this inquiry. I'll put another quote from you, where you called on people to stand by the Republic and assist the inquiry. Can I ask you to assist me in the question I have? Do you accept that the Fine Gael - and I'm not talking about your economic model-----

**Chairman:** You're drifting out of ... I'm ready to make an intervention, I don't want to do that so can I get you to ask your question.

**Deputy Pearse Doherty:** Yes, I'll ask the question if you can get the Taoiseach to answer it.

**Chairman:** Fair enough, now one second. I'll assist both you and the witness.

**Deputy Pearse Doherty:** Okay. So I want to ... Because I'm putting it to you that you've said that far from increasing expenditure, you did the opposite, right? So I want to make this point and can you answer, please, the point I'm making and if you need clarification in terms of the question I'm putting, maybe seek it. Do you accept from the four numbers that is on your screen from the Fine Gael election manifesto that Fine Gael were planning to increase expenditure at twice the rate of what the projected growth was in the economy, which was in line with what the previous Government had done in the previous five years where they increased expenditure at twice the rate of what growth was in the economy?

**Chairman:** Okay. Thank you.

**The Taoiseach:** Well, that is not right-----

**Deputy Pearse Doherty:** Taoiseach.

**The Taoiseach:** -----because the figures are the figures that were adopted by the Fine Gael parliamentary party in the 2007 Fine Gael election manifesto. Those figures are the figures that were adopted by the Fine Gael parliamentary party. But the Fine Gael economic model was vastly different from what Fianna Fail had proposed and were implementing. And your comment that this was the same as the Fianna Fail party is just not consistent with reality. Because we had consistently from 2002 onwards pointed out the dangers to the economy, the necessity for having accountability, regulation, value for money, efficiency, competence in running a national economy and that was not in any way evident in what the Government of the day were at.

**Chairman:** Okay, thank you. Deputy O'Donnell to wrap up, please.

**Deputy Kieran O'Donnell:** Taoiseach and Minister Bruton, if you had been elected as Taoiseach in '07, Mr. Kenny, what would you have done differently in terms of dealing with the banks and the bank guarantee than was done by the Government of the day?

**The Taoiseach:** Well, we'd have implemented the propositions that Fine Gael have put forward and, obviously, a great deal has changed both at home and abroad in terms of bank and bank structures. Clearly, as I pointed out, Deputy O'Donnell, the situation where you had a seamless evolution from being in the Department of Finance to being in the Governorship of the Central Bank without any difference of opinion or allowing for that, that's all changed. And from 2002 right through to 2007, the warning signs were indicated by Fine Gael at every opportunity and particularly in respect of the budgetary contributions made by myself and by the spokesman at finance but, obviously, people made their choice in 2007 and, despite the fact, Deputy O'Donnell, that people knew and were well warned about the cracks that were appearing in the Irish economy, they made their choice and almost gave the Government of the day an overall majority. I suppose the situation so far as being populist is concerned is still around. But, clearly, we've learned lessons since then. If Fine Gael had been elected in 2007, it would have tried to rectify that position. I would have preferred if they had been re-elected back in 1997 and it wouldn't have arisen in the first place.

**Deputy Kieran O'Donnell:** And, Mr. Bruton, in terms of the approach to the banks, in terms of the guarantee itself, what difference, looking back now and reflecting on your period in Government, what different of an approach would Fine Gael in Government have taken in terms of putting a bank guarantee and the approach?

**Deputy Richard Bruton:** Well, I think, you know, going right back to 2002, you know, we were very critical of the regulatory system that was being put in place, we did not think it was fit for purpose ... and that was, sadly, proven right over the subsequent years. So we were right to call at that time for a detailed review and when it came back through the subsequent years, when enforcement powers came back for consideration again we raised that issue that there hadn't been a proper stress testing of the model and I think that was proven to be a serious vulnerability. Obviously, when the guarantee ... you know that bank collapse started, as we've outlined ... the Taoiseach has outlined in detail why we supported the guarantee. You were at a point where, you know, you feared a run on the banks, you needed to protect depositors ... but we raised all of the right questions about whether, you know, was there an adequate buffer and could this impact. I think as soon as it became clear that this wasn't just a liquidity issue, it was a solvency issue, we strongly advocated that within each bank, there should be the separation out of a bad bank, which would have left the shareholders and the bondholders holding, if you like, the assets that were questionable and they would have to recover from those assets as best they could to recover the value of their shareholding and their bond holding. That was clearly the model we advocated - the separation of good from bad. That wasn't done, as you know, but that was the position we took and I think we were right in that. We took the view that, you know, Anglo ... there shouldn't be more recapitalisation of Anglo, that it was a bank that should be wound down in an orderly fashion at a time when we were being told that it should be kept open as a going concern. So, we did take different views on those. I think, by and large, at the time, based on the information we had available to us, those were sensible policy positions to take up. So, you know, I think we have a very credible record in relation to how we handled this crisis, but, clearly, no one has perfect foresight or perfect hindsight and, you know, it ... this was an appalling disaster that no one anticipated in its scale or impact on people but I think

the policy position and the scrutiny that we applied was the right scrutiny and policy positions.

**Deputy Kieran O'Donnell:** And finally, Taoiseach-----

**Chairman:** Quickly now.

**Deputy Kieran O'Donnell:** In ... what assurance can you give to the public that the measures that have been brought in will ensure that a banking crisis doesn't happen again in Ireland and that we don't have a property bubble for the ordinary person-----

**Chairman:** You are moving in now to Minister Noonan's space when he's in before us in September, okay? And really, I want to put a stop to that there, okay. Thank you very much. I'm going to bring matters to a conclusion. I, in doing so, I would like to thank An Taoiseach, Enda Kenny, and Minister Richard Bruton, for their participation today with the inquiry and with their engagement with us. I now would like to, in doing so, formally excuse the witnesses and propose that we suspend - it's coming up to 12.25 p.m. - that we suspend until just after 12.45 p.m. if that's agreeable, okay?

*Sitting suspended at 12.25 p.m. and resumed at 1.12 p.m.*

### **Oireachtas - The Tánaiste and Minister for Social Protection, Deputy Joan Burton, and Deputy Pat Rabbitte**

**Chairman:** I now call the committee back into public session; is that agreed? Agreed. We now proceed with our second hearing of today, that's the hearing with An Tánaiste, Joan Burton TD, and Mr. Pat Rabbitte TD. The Committee of Inquiry into the Banking Crisis is now resuming in public session, and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off? Our next witnesses today are An Tánaiste, Joan Burton TD, and Mr. Pat Rabbitte TD. You're both very welcome before the inquiry and the committee this afternoon.

Today the inquiry is focusing upon the role of the Oireachtas and the effectiveness of the Oireachtas oversight of the Government in the build-up to the crisis and in responding to the crisis. In particular, our focus will be on three lines of inquiry: the effectiveness of the Oireachtas in scrutinising public policy on the banking sector and the economy, analysis of the key drivers for budget policy and the appropriateness of the relationships between Government, the Oireachtas, the banking sector and the property sector.

The Tánaiste and Deputy Rabbitte TD are, therefore, appearing before the inquiry today in the context of their respective roles as the Labour Party's spokesperson in finance while in opposition and as the leader of the Labour Party while in opposition.

In normal circumstances - excuse me - when a witness appears before here, they don't have privilege and privilege is extended to them by virtue of this committee's powers. In this regard, as both Members are current Members of the House, there is no requirement for me to extend privilege to the witnesses in that regard. However, I would state that the witnesses are directed that only evidence connected with the subjects of these matters to 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