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AN COMHCHOISTE FIOSRÚCHÁIN I DTAOBH NA GÉARCHÉIME BAINCÉI- REACHTA

JOINT COMMITTEE OF INQUIRY INTO THE BANKING CRISIS

Dé Céadaoin, 29 Iúil 2015

Wednesday, 29 July 2015

The Committee met at 9.30 a.m.

MEMBERS PRESENT:

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

DEPUTY CIARÁN LYNCH IN THE CHAIR.

because ... because of, as we have discussed, the rapidity of which these decisions had to be made and because I was living down in Limerick, you know. There could have been meetings and-----

Deputy Michael McGrath: But sure surely you couldn't have a situation were a member of the committee wasn't even told the committee was meeting.

Ms Ethna Tinney: I'm not saying that there was; I'm just saying that I don't know. But I only recall one meeting.

Deputy Michael McGrath: Okay. So were there other meetings that you were notified of - but ... but you didn't attend - of the credit committee?

Ms Ethna Tinney: No, absolutely not.

Deputy Michael McGrath: Okay. So you were informed of one credit committee meeting in a period of 22 months-----

Ms Ethna Tinney: Yes, that's my recollection.

Deputy Michael McGrath: -----at a time when the society was lending millions of euro-----

Ms Ethna Tinney: Yes, tens and tens and tens of millions of euro.

Deputy Michael McGrath: -----in commercial property land development? Absolutely. Thank you.

Chairman: Thank you, Deputy McGrath. I'm going to move please to a wrap-up. Do you have anything else to offer, Deputy Higgins?

Deputy Joe Higgins: No further questions, thank you. Thank you.

Chairman: Okay. With that said, I'm going to bring matters to a conclusion. Ms Tinney, I can invite you to make any closing remarks if you wish. The ... in doing so with Mr. Merriman earlier this morning, I just, kind of, revisited the sort of journey of the EBS where it started out as an institution that could help a particular type of civil servant buy a house and ended up in maybe a different space at the end of its journey. Do you've anything that you'd like to say by final ... matters of closing remarks?

Ms Ethna Tinney: No. I'll say that my whole experience with EBS, taken *in toto*, was in some ways very bruising but it was certainly very educational. And I don't regret a minute of it.

Chairman: Thank you, Ms Tinney. With that said, I'd like to thank you for your participation today with the committee and for your engagement with the inquiry. You're now formally excused. Just to say to members, if there's any other matters relating to what we discussed in private business this evening, I probably might take before we come back before the next public session. But I don't have enough data as such yet, okay. So, with that said, I now propose that we suspend for one hour and return at 3 p.m. Is that agreed? Okay.

Sitting suspended at 2.03 p.m. and resumed at 3.18 p.m.

NEXUS PHASE

Chairman: I now call the committee back into public session. Is that agreed? Agreed. And we'll continue our hearings today, our session 3, which is public hearing with Ms Mary Harney, former Tánaiste and leader of the Progressive Democrats, and Mr. John Gormley, former Government Minister and leader of the Green Party. The Committee of Inquiry into the Banking Crisis now resuming in public session and can I ask members and those in the public Gallery to ensure that their mobile devices are switched off. This afternoon, we continue our hearings with senior members of the Government who had key roles in the run-up to the crisis period. At this afternoon's session, we will hear from Ms Mary Harney, former Tánaiste and leader of Progressive Democrats, and Mr. John Gormley, former Environment Minister and leader of the Green Party. Mary Harney was a member of the Dáil from 1991, sorry 1981, to 2011. She held several senior posts in government and was Tánaiste from June 1997 to September 2006. She was leader of Progressive Democrats between 1993 and 2006, and again from 2007 to 2008. John Gormley was a member of the Dáil from June 1997 to February 2011, and was Minister for the Environment during that time. He was leader of the Green Party from July 2007 to May 2011. Ms Harney and Mr. Gormley, you're very welcome before the committee this afternoon.

Ms Mary Harney: Thank you.

Chairman: Before hearing from the witnesses, I wish to advise the witness that, by virtue of section 17(2)(l) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to this committee. If you are directed by the Chairman to cease giving evidence in relation to a particular matter and you continue to do so, you are entitled thereafter to only qualified privilege in respect of your evidence. You are directed that only evidence connected with the subject matter of these proceedings is to be given. I would remind members and those present that there are currently criminal proceedings ongoing, and further criminal proceedings are scheduled during the lifetime of the inquiry which overlap with the subject matter of the inquiry. Therefore, the utmost caution should be taken not to prejudice those proceedings. Members of the public are reminded that photography is prohibited in the committee room. To assist with the smooth running of the inquiry, we will display certain documents on the screens here in the committee room. For those sitting in the Gallery, these documents will be displayed on the screens to your left and right. Members of the public and journalists are reminded that these documents are confidential and they should not publish any of the documents so displayed. The witnesses have been directed to attend this meeting of the Joint Committee of the Inquiry into the Banking Crisis. You have been furnished with booklets of core documents. These are before the committee, will be relied upon in evidence and questioning and form part of the evidence of the inquiry. So with that said, if I can now ask the clerk to administer the oath to both Mr. Gormley and Ms Harney, please.

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

Ms Mary Harney, former Tánaiste and Leader of the Progressive Democrats.

Mr. John Gormley, former Minister for the Environment and Leader of the Green Party.

Chairman: Once again, thank you, Mr. Gormley and Ms Harney, and if I can invite you to make your own opening statements. Mr. Gormley, if I could ask you to commence.

Mr. John Gormley: Chairman, committee members, I would like to thank you for giving me the opportunity to address the banking inquiry committee on these important issues. I hope that your valuable work will add to the store of knowledge on this subject contained in the Regling and Nyberg reports and that lessons can be learned. Chairman, I became leader of the

Green Party in 2007 following the resignation of Trevor Sargent. While we were the only party that based our 2007 election manifesto on a forecast of reduced growth, I don't think anybody in the party could have predicted that our term in government would coincide with the worst economic crisis that this country has ever had to endure. The Green Party did not create the housing bubble but, in government, we had a duty to extricate our country from the crisis. This involved making the most difficult political decisions that any small party in this State has ever had to make. It is a fact that two thirds of what is known euphemistically as the "fiscal adjustment", which led to the recovery, was made by the Green Party in government. The Green Party TDs and Senators voted for these cutbacks and tax increases, convinced that this was the correct course of action, while also knowing that it would lead inevitably to electoral annihilation. I'm proud of the dignified way that the Greens conducted themselves during this time of adversity. I'm also proud of the fact that the Green Party insisted that every one of those austerity budgets was progressive. In other words, each budget hit the wealthier members of our community proportionately harder than the less well-off. This has been confirmed by subsequent studies of the various budgets by the ESRI. This is not to imply that the cutbacks were painless; they were not. Large sections of the Irish people suffered hugely because of the austerity measures and I regret that we were forced to make these decisions. I believe our economic and financial problems were caused by a combination of factors, which include banking deregulation and poor oversight of the financial institutions, a property bubble fuelled by reckless lending practices and irresponsible land rezoning, huge increases in public spending, over-reliance on property and construction-related taxation, alongside inappropriate reductions in some taxes. The globalisation of banking and interbank lending also led to a global domino effect.

I'd like now to concentrate on one of the above subjects and one which is close to my own heart: the role of poor planning in our economic crisis. Some of the inquiry members may be aware of the report published in July 2010 by NUI Maynooth titled, *A Haunted Landscape: Housing and Ghost Estates in Post-Celtic Tiger Ireland*. It is a report that deserves the full attention of this committee. Let me quote from the executive summary:

Government has two principle levers through which it can ... regulate property development. The first is through fiscal policy with respect to regulating access to credit and determining taxation rates. The second is through planning policy and the zoning of land and the granting of planning permissions. Explanations of the Irish property bubble have focused almost exclusively on the former, and the role of the banks, tax incentive schemes, and the failures of financial regulators. **To date, the role of the planning system in creating the property bubble has [not been] considered.**

The fact is, Chairman, that corrupt and irresponsible zoning practices did play a significant role in our economic crisis. The above report asked that a commission of inquiry would look specifically at this matter. That may not happen but you have the opportunity to examine it as part of your own inquiry. During the so-called boom years, the Green Party representatives on local councils and in the Dáil tried at every turn to highlight the problems of poor planning. On entering Government, we resolved to introduce a more evidence-based and sustainable planning system. As Minister, I enacted new planning legislation and intervened at local level in a number of cases of poor planning practice. I also initiated a number of reviews of local planning following complaints and allegations by members of the public. The Green Party also insisted on a windfall tax on the unearned benefit to landowners of rezoning land. All of these measures were designed to counteract the poor practices which had led to the crisis and I am convinced that had they been in place earlier, the property bubble would not have inflated to such an extent and the severity of the economic crisis would have been much reduced.

On the question of banking, the Green Party was to the fore in directly criticising the lending practices of the banks. Our then Finance spokesperson, Dan Boyle, recalls in a book he published on our time in government, a meeting with the Irish Banking Federation in 2006. He attended this meeting, along with the current leader of the party, Eamon Ryan and I'd like to quote directly:

We brought up the question of the efficacy and economic sanity of issuing 110% mortgages, and the general lack of sustainability that seemed to exist in [the] property market; a market the banks seemed intent on inflating further. The response to our concerns was both arrogant and condescending. We didn't understand banking, we were told, besides which the market would correct itself in a relatively painless manner.

Early in our term in government, I recall, at a pre-Cabinet meeting in the Taoiseach's office at the time of the Northern Rock collapse, asking the Finance Minister, Brian Cowen, if our banks were sound. He told me that there was no problem with our banks and that they were well capitalised. I had no hard evidence to suggest otherwise but a nagging doubt did persist. It was clear that the Lehman's collapse would have knock-on effects and I asked Minister Lenihan if there were contingency plans here. He told me that matters were in hand. I got the impression that Finance were working on a plan but I had no idea that they had been working on it for an extensive period of time, as indicated in the evidence of Kevin Cardiff.

I became aware that week from a comment made to me by Minister Lenihan that he had also been in contact with David McWilliams. I did not know the extent of that contact until David McWilliams published details in a subsequent book. I phoned David McWilliams on his mobile, while I was in Brussels on 26 September. We had a long and detailed conversation on what could and should be done on the banking crisis. In his evidence, David McWilliams seemed to indicate that we had no further contact on the matter. In fact, there was an important exchange of e-mails, which are included in the appendix, at the request of the Chairman. When I raised the possibility of nationalisation of the banks during our telephone conversation, he dismissed the idea out of hand. He did so again in his subsequent e-mail to me. I told him that I would raise the matter with the Taoiseach and the Minister at a pre-Cabinet meeting on the Sunday, that was 28 September. I met the Taoiseach and Minister Lenihan in the ante-room opposite the Cabinet room. I passed Mr. Lenihan the article written by David McWilliams and mentioned his proposals. There was a cursory acknowledgement of the points but neither of them indicated that there was to be a meeting with bankers the next day.

The first indication I had of such a meeting was when I got a phone call from Minister Lenihan at about two o'clock on the morning of the 30th. I had a brief conversation with Minister Lenihan. He explained to me the urgency of the situation. He said that this was an incorporeal Cabinet meeting but that I was welcome to come into Government Buildings, if I wished. I told him that it would not be necessary if we were going with the "David McWilliams option". He confirmed that that was what was being proposed. As this had been the basis of our previous discussions, I was satisfied to give my consent to a Government decision to publish legislation to give effect to the guarantee. Early that morning, I e-mailed David McWilliams with the news. When he replied later on that day, he was particularly pleased that the markets had reacted so positively to the guarantee. Chairman, I would like to note that I was grateful for David McWilliams's input. He did not know, nor did I, that we were dealing with an insolvency problem. Even on the day of 30 September, Minister Lenihan told us that the guarantee was the best way to deal with the liquidity problem.

Following the guarantee decision of September 2008, the Green Party maintained a close

involvement in the Government banking and budget strategy. Responsibility for dealing with these matters in government was assumed by my colleague, Eamon Ryan. That part of my official statement is based on contemporaneous notes taken by Eamon Ryan and I believe it would be in the interest of the committee to interview him separately, as he had a more direct involvement in these matters.

Before concluding, Chairman, I'd like to draw your attention to three small corrections to my official statement. I already notified the inquiry team that I was attending a meeting of the European Environment Bureau on 26 September 2008 in Brussels and not a European Council meeting. Secondly, the sentence relating to the National Economic and Social Council should read as follows: "In answering their question as to whether we were more Northern or Southern European in our current circumstances, it was clear that the former was the case", and I emphasise "the former" there; I think it read "the latter". Also in the official statement, references made to the level of emergency liquidity coming from the European Central Bank and it states that it "had reached some €130 million". That should, of course, read "€130 billion". Finally, Chairman, I have noticed in preparing for this hearing that the record-keeping in the Oireachtas and the various Departments needs to be improved. I'm referring now to Ministers' diary records, phone and text and e-mail and visiting records. All of this, I believe, should be in digital format, searchable and readily available and, right now, it isn't. I'd like to thank the inquiry team and the staff for their unfailing courtesy and I'd like to wish you, Chairman, and the members of the committee every success in completing this important report.

Chairman: Than you very much, Mr. Gormley, and if I can invite Ms Harney now to make her opening remarks please. Ms. Harney.

Ms Mary Harney: Chairman, members of the committee, I'm very pleased to be here this afternoon to help you in the important task you've set for yourselves which is to hopefully provide valuable lessons for the future management of our economy. And your report will build on the analysis we've had already from Honohan, Regling-Watson, Peter Nyberg and so on. I have submitted a detailed statement to the committee in response to the lines of inquiry sought of me and I am assuming that that statement has been read so I, therefore, am not intending to read that statement this afternoon. But I just do want to highlight a small number of issues.

You have asked me to deal with the policies in the 28th, 29th and 30th Dáil. And, broadly, the macroeconomic policy was consistent - the strategic focus of the Government was to stimulate employment, to increase competitiveness so that we could reduce unemployment, and particularly long-term unemployment. I am particularly proud of the achievements during those Governments. We brought unemployment down from double digit to 4% or 5%, which was effectively full employment and, in particular, we made a very serious dent on what was long-term unemployment. In the mid-'90s to 2000, there was reference made to reclassifying the unemployed ... the long-term unemployed as unemployable. We proved that through activation policies that what could have been a long-term unemployment for ever, those people became employed and I am very proud of that. We introduced a national minimum wage, we reversed emigration with immigration, we significantly grew take home pay and we greatly advanced the national infrastructure, as manifested most particularly by the motorway ... motorways we see in the country today. But I'd like to highlight the investment we made in science, research and technology and now two thirds of the IDA jobs are very much dependant on the investments we made around 2000 in basic research in this country. Ireland is now third in the world in nanotechnology, fifth in material science, first in immunology and so on. These are major achievements for a country of our size. We also increased social spending on education, health

and pensions, and particularly welfare payments. We had budget surpluses every year between 1988 ... 1998 and 2007, with the exception of one year. We reduced, as I said, the burden of taxes and we grew spending. We established a National Pensions Reserve Fund and 1% of GNP was put into that fund for a rainy day.

However, notwithstanding the successes that I am proud of, we made mistakes. We did not foresee the enormous explosion of credit with entry into the euro. Prior to entering into the euro, we put an extraordinary amount of effort into what I would call the “changeover process”. We were very focused on the rate with which we enter, on competitiveness issues, particularly *vis-à-vis* our nearest trading partner, the UK, and the effect on inflation. In hindsight, we should have put a process in place that would have allowed us to look at the risks and the potential and the benefits of low interest rates on this economy. I think if we had done that, it might have helped to arrest the more serious, negative effects of a low interest rate and cheap credit on the economy and we could have put mitigating measures in place.

Secondly, we were very trusting of the regulatory environment. We probably should have been more proactive in monitoring and reporting, particularly the Government but also, I think, the Oireachtas. We should have had regular assessment of the financial stability and that could have helped. We could have had more critical analysis of the financial stability report. And I think we placed undue confidence on the process and the procedure that we put in place. And whilst it’s not the job of Government to micro-manage regulation, if it goes wrong, Government must accept the political consequences of that. And I believe we have to.

And, thirdly, I think we allowed public spending to grow too quickly on the back of what I would call “transient taxes”. We had recurrent expenditure on the basis ... or recurring expenditure on the basis of transient taxes mainly from the unsustainable construction activity. It’s understandable why these mistakes were made. The general commentary in the ... in the country was benign and that helps to explain some of the mistakes. Even the ESRI in their mid-term report, 2008-2015, forecast a growth rate of 4% and even in their worst-case scenario, the expectation was that the resilience and flexibility of the economy, with appropriate management, would see us return to reasonable growth in 2010. I mention that simply to say that well-respected and credible organisations - even with the best forecasters - can get it wrong. We need to learn lessons from that and the lesson is that we need to challenge the consensus. I think consensus is part of our gene as a nation. We didn’t challenge the consensus and, in particular, the Government should have challenged the consensus and, therefore, we failed to pursue the hard remedies that might have avoided some of the pain that our citizens had to endure. For those mistakes, of course, I, as a member of the Government, have to share responsibility and I deeply regret all of those mistakes. I regret, in particular, that we did not dig deeper and ask harder questions.

I want to deal now with the issue of regulation and my role and relation to that. In 1997, when I became Minister for Enterprise, Trade and Employment, I had responsibility for the regulation of the insurance industry and credit unions. I was conscious that in 1985 an insurance company ICI almost brought a bank down, owing as they did I think it was £400 million at the time. I was anxious that the Department which didn’t have the expertise - we had, effectively, half an actuary - to continue to regulate insurance. But I was also aware that banks were getting into pensions and life assurance and I believed that one ... eyes should look at an organisation and not separate regulators - one in the Department of Enterprise, Trade and Employment and the other in the Central Bank. The Government agreed to the establishment of a single Financial Regulator. And we subsequently put a process in place to look at how that

Financial Regulator would be put in place, whether it would be greenfield option, whether it would be part of the Central Bank or whether it would be what became subsequently known as the “two-pillar approach”. In the context of those discussions, it was pointed out that the Governor of the Central Bank would have to have the authority to issue binding instructions to the regulator. This was pointed out both through ECB intervention, through the Department of Finance and through the Central Bank itself. When the report came, I was happy to go along with that. We are, after all, a small country and there was no point establishing an organisation for the sake of it and we had to be mindful of the Governor’s wider responsibilities as part of a single monetary union.

I was also conscious during that time that the role of the consumer was ignored in regulations. Banks were, quite honestly, in some cases ripping off consumers. There were hidden costs. They were helping consumers establish bogus non-resident accounts for the purpose of avoiding tax. There were many hidden charges and there was a lack of confidence in regulation, as we knew it, and even a State bank was involved in DIRT. I was involved, too, in a number of inquiries as Minister for Enterprise, Trade and Employment into banks - Guinness Mahon, Irish Intercontinental, National Irish Bank and so on. And the combination of all these things brought me to the conclusion that all was not well in the manner in which we regulated the financial services and that is why I was so proactive in seeking to ensure that we had a new regime. The mistake, I suppose, was after the new regimen was put in place, not being more proactive in ensuring that appropriate resources were devolved to the regulation of the financial institutions. And, in fact, it wasn’t until this ... until the Honohan report, I think it was, that I realised that the big institutions only had two individuals responsible for their regulation. I think that was a serious error and the Government certainly wasn’t aware of that. And I think it’s a pity that we weren’t aware of the lack of resources that were being applied to regulation.

Chairman, I end there for the purposes of time. I’m happy to take questions on my statement, or even things that aren’t in my statement. But above all else can I say if there’s any lesson I have learned from my time in government, as a result of what happened, it is that we need to be more questioning, particularly of consensus. And we did have a national consensus in relation to a soft landing in the property market that was not correct. And it is the responsibility of Government and maybe, secondly, the Oireachtas to be more questioning of consensus of that kind. And perhaps if we were, it may not have avoided all the problems, or any of them, but certainly I think it’s a responsibility we all bear and as we go forward I think it’s a lesson that we should learn. Thank you.

Chairman: Thank you very much, Ms Harney, and thank you also, Mr. Gormley, for your earlier statement. If I can now commence questioning, and if I can invite Deputy John Paul Phelan to begin. Deputy, you have 15 minutes.

Deputy John Paul Phelan: Thank you, Chairman. And good afternoon, Ms Harney and Mr. Gormley. I’d ask you to be as brief as you can, we only have 15 ... or I only have 15 minutes. Maybe to start with Ms Harney first in relation to the last point you made with regard to regulation. Outside of the issue of resources, which you referenced, you’ve detailed how you had a role in the establishment of the new regulatory system. With the benefit of hindsight, are there other structural changes that you would do differently now if you had that time back again?

Ms Mary Harney: Well, can I ... sometimes I think we’ve become a bit obsessed with structures, and I think both Governor Honohan in his report, and I think Mr. Patterson, when he was before this committee, whilst they had issues with the structure, did say that the structure wasn’t

the reason why mistakes were made, and I would agree with that view. I think we can become a little bit obsessed with how things look, rather than what we do. I think if there's anything I would say reflecting back, and I don't intend for one moment to scapegoat anyone, because I think, collectively, we all failed, but I think it's more to do with the culture. The reason I was so keen to have a new regulatory environment was partly because of the cultural issues that I experienced. As I said, customers of banks were ... had hidden charges imposed on them. They were being helped set up bogus non-resident accounts to avoid tax. I knew in the Department of Enterprise, Trade and Employment that we certainly didn't have the resources to deal with a modern insurance industry and I was very worried that what had happened in '85 could happen again, and that's why we sought to move that into a different era. Many of the people on that committee recommended a greenfield site, and that had attractions to me initially. But I think, given the involvement of the ECB, given the fact that we were part of a monetary union and the particular responsibilities that fall on the Governor, and, as I said, what was more of concern to me was what they did rather than who did it.

Deputy John Paul Phelan: Okay. Can I ask in relation to the greenfield site issue: it would have been covered, I suppose, in media speculation at the time, that some of the ... maybe Fianna Fáil members of the Government would have favoured retaining regulation more centrally within the Central Bank, whereas the Progressive Democrats members of Government might have been more identified with the greenfield site. Can you enlighten us maybe as to the discussions that led to the ultimate establishment of what we had?

Ms Mary Harney: Well, to be fair, Deputy, it never broke down as between Fianna Fáil and the Progressive Democrats in relation to that matter. There were differences between, I suppose, the Department of Finance and the Central Bank on the one hand, and probably everybody else. But what concerned me was how we regulated rather than necessarily who did it.

Deputy John Paul Phelan: Okay.

Ms Mary Harney: And I was mindful of the particular responsibilities of the Governor and also of resource implications. And this expertise is not easily found. It's a very complicated area. In my own Department at the time we only had the equivalent of half an actuary. So I was conscious of all of those issues. And what concerned me most was what the regulator did, rather than who actually did it.

Deputy John Paul Phelan: Okay, that's fair enough. Can I ask you then in relation to the discovery, and you mentioned the reports, and we've had evidence here from witnesses of two to three people who were directly regulating, on a micro level, different institutions. How did that situation ... how was it allowed to come about? How, in light of the fact that you said you had reservations, that you had only an effectively half an actuary in your Department regulating insurance and the credit unions, how come there wasn't more strict oversight of the actual prudential regulation of financial institutions?

Ms Mary Harney: Well, certainly I wasn't aware, and I don't believe the wider Government was aware, of the resources that were being allocated. Maybe it's ... I mean, we're all talking here about eight years on and hindsight and looking back at mistakes and trying to reflect and agonise about are there things we should have seen and done differently. Certainly, if I was to say that having established a new regulatory environment, perhaps we should have looked for ongoing reports from that regulator.

Deputy John Paul Phelan: Okay.

Ms Mary Harney: That didn't happen. Certainly in my part it didn't happen. I don't know whether it happened through the Department of Finance, but I was not aware of the poor level of resources that was being applied to the regulation of what is a very complex global industry.

Deputy John Paul Phelan: Okay. You referenced Mr. Patterson in your comments there as well. Did you see his evidence to the inquiry?

Ms Mary Harney: I certainly watched him, yes.

Deputy John Paul Phelan: I want to quote a quote which has got a lot of coverage maybe in subsequent questioning of other witnesses, from him, from his evidence on the day he was here. I'll quote him directly. He said, "None of the authority - the board - had any experience in regulation [regulating banks]." You would have had some input, I'm sure, into the nominees onto the board of the new regulatory authority. How come we could have appointed, or Government could have appointed, a board of people to regulate that had, between them, zero experience of regulation?

Ms Mary Harney: Yes, I did have some involvement. In fact, I ... if memory serves me right, I think I did suggest to the Minister of Finance that Mr. Patterson would be an ideal person to be chairperson. I had come across him briefly in business and he impressed me. That skillset is not easily found, quite honestly. These ... other than retired regulators, I'm not certain who we could have put on that had regulatory experience. There was a former CEO of an insurance company, an economist, I think. In fairness we tried to get a balance-----

Deputy John Paul Phelan: A romantic novelist, was there?

Ms Mary Harney: Sorry?

Deputy John Paul Phelan: A romantic novelist ended up on the board?

Ms Mary Harney: Well, you know, consumers had to be represented too, and, in fact, the whole debate, and I've read ... I've taken the opportunity - in fairness, in the context of coming to this committee - to read the Dáil debate again, and the whole emphasis in the Dáil from Deputies of all parties was on consumer protection. So it was appropriate that consumers, and we're all consumers, should be represented on the board as well. I'm not certain. I respect what Mr. Patterson had to say. I think we would have had to go outside the country. We're sometimes not good at that.

Deputy John Paul Phelan: He said that he flagged it at the time with the Minister and there was no-----

Ms Mary Harney: Well, it wasn't something I was aware of that he was concerned about, to be honest with you.

Deputy John Paul Phelan: Okay. But with the benefit of hindsight?

Ms Mary Harney: Of course. Look-----

Deputy John Paul Phelan: A lot of things-----

Ms Mary Harney: -----with the benefit of hindsight, we appointed Mr. Elderfield and we paid him a salary substantially greater than what we were prepared to pay during those years. There's a lot of lessons we have learnt. And one lesson we must learn is that this expertise glob-

ally is in scarce supply. And, therefore, if you're going to acquire that expertise, whether it's in the form of executive staff ... and sometimes in Ireland we go for three instead of one with the expertise and the experience, we might go for three more junior people. I think what ... if there's any other lesson we should learn from the regulatory issues it is that we need the appropriate expertise, whether it's on the board of the regulator or whether it's particularly working at executive level in the regulatory office.

Deputy John Paul Phelan: There was another quote that I just want to put to you from Pat Rabbitte when he was here last week. He gave his summation of issues around regulation that led to the collapse, and he said ... he described it as a "classic case [here] of regulatory capture". What do you feel on that particular, yes, on that particular view?

Ms Mary Harney: Well, one would have to say in hindsight, notwithstanding the changes we made, with the exception of the consumer issues, where I think the new regulator did have a very proactive, hands-on approach to the consumer issues, because prior to that the Central Bank, I think, referred issues around bank charges to the director of consumer affairs - it wasn't an area that they had an interest in - but notwithstanding the changes it's fair to say that I think the culture didn't change.

Deputy John Paul Phelan: Okay.

Ms Mary Harney: And I would agree with Deputy Rabbitte in that respect. And maybe it is partly because we're a small country, but there was a lot of deference, perhaps, to the banks. In the first instance the failure of the banking system must rest with the bankers and the lenders. And then the auditors and the accountants. I think, to be fair, the regulator and the Central Bank come down third and fourth line of defence. They're not up there No. 1.

Deputy John Paul Phelan: You don't ... well, I understand, and I think the point you're saying is that boards of directors have responsibility and, you know, the structure of the bank to their own shareholders. But we've uncovered a lot of, I suppose, evidence from different sources of a very deferential relationship that existed between the banks and those who were supposed to be regulating them, not least details of social events that took place in or around the time of the guarantee. Do you not favour, or do you favour, a more hands on - even with the benefit of hindsight - form of regulation and do you not feel that that actually was a crucially ... a crucial failing in what happened?

Ms Mary Harney: Well, if you look at core document No. 40, which was sent to me, on page 87 there's a note there from the head of the banking unit, I think, in the Department of Finance, which quoted me as saying I wanted a more proactive regulatory environment. That is a fact; I did.

Deputy John Paul Phelan: Okay.

Ms Mary Harney: I wouldn't get too hung up on the social events, Deputy, I'm more concerned about what people do. If they do their job, who they socialise with is not ... of no interest to me. But I do think we need a regulatory environment that's robust, that protects the consumer and protects the banking system. And I think we were all quite alarmed with what came out subsequently. Some reckless lending, which none of us, in our wildest dreams, could have imagined.

Deputy John Paul Phelan: Okay. I've two questions that I have to ask you before I get to Mr. Gormley. Hopefully I'll have a bit of time with him. At the bottom of page 3 of your state-

ment that you presented to the inquiry you said, "I have commented on Government's lack of awareness of the growing risks in relation to Financial Stability in the lead-up to the crisis - an omission that one hopes is unlikely to be repeated given the huge focus on regulatory implementation since then." Briefly, do you feel that enough has been done to ensure that a repeat will not happen? Briefly, please?

Ms Mary Harney: I hope so. I think their ... certainly the regulatory focus now is much more robust. There's no question about that. I think all of us, whether as Members of the Oireachtas or members of Government, will be far more questioning and will get behind the data that's supplied and use our critical faculties more. But if you're to ask me could we have another crisis, I can't put my hand on my heart and say, "No". But sitting where I sit now, I think we've done everything so far possible to avoid that, yes.

Deputy John Paul Phelan: Okay. This is my final question. On the website, still, of the Department of jobs and enterprise, as it is now, when I was preparing for this I found a speech, or a press release of a speech, that you gave in 2002, 12 September 2002, at an event ... a breakfast event in a hotel in the IFSC, and I want to put a quote from it to you:

15 years after it started, the IFSC is fully on the world financial map. I would like to see if we can give a renewed public-private push to bring [international] financial services to a new level in Ireland. Let's renew the energy and commitment on all sides that got us this far. The new financial regulator ... will help give a boost, as we already see in the Chairmanship in Brian Patterson. There is a lot more we can do together. So let's set our sights high.

I want to ask you, what did you mean in terms of a boost? And, secondly, we've had a few witnesses that have outlined the clash, if you like, between the two roles of the regulator, regulation and promotion, that existed under the legislation. And you seem to be indicating, if I'm not ... if I'm correct there, that the role of the regulator was almost equally important in terms of promotion.

Ms Mary Harney: Well, in relation to the developmental role, that came secondary to stability, obviously. I think Mr. Honohan said that ... the Governor said that in his report, that it wasn't of the first order. Secondly, we established a global financial services sector here from zero and to have credibility in the global financial world you need good regulation. It's not about light regulation or no regulation; it's about strong, robust legislation. People are not going to put their funds and their money into a country where they're not confident of the regulation. So, what ... when I was talking I was talking about the new, strengthened regulatory environment. And in relation to the development of promotional role, the IDA had a strong role. As Minister for Enterprise, Trade and Employment I met with many financial services companies around the world, promoting the IFSC, and so too did the clearing house. So, I think the Central Bank's role would have been certainly down the line from that and it would, in any case, have been secondary-----

Deputy John Paul Phelan: Was there an inherent conflict, though, in those two roles?

Ms Mary Harney: I know it's gone now and why it was there in the first place I'm not so certain. Perhaps there was a conflict. It's not the first piece of legislation that I am aware of where there might be this overarching clause that talks about the development role of whatever sector. But I think the Central Bank's first and primary responsibility was the stability, financial stability of the country and I don't think anybody can take from that.

NEXUS PHASE

Deputy John Paul Phelan: Okay. There's only a minute and 20 seconds left for Mr. Gormley, sorry about that-----

Chairman: -----scold you now for your manners, Deputy Phelan.

Deputy John Paul Phelan: -----but thank you for your answers. Yes.

Ms Mary Harney: It was not my wish to take all of Mr. Gormley's time, I assure you.

Deputy John Paul Phelan: No. I briefly want to refer Mr. Gormley to page 4 of your statement.

Chairman: Quick question now, Deputy.

Deputy John Paul Phelan: Yes.

Mr. John Gormley: Page 4.

Deputy John Paul Phelan: It's the phone call from Minister Lenihan on the night of the guarantee when you were ... an invitation, at least, was extended to you to attend the Government Buildings. Why didn't you? And again, if you had that time all over again would you have ... would you act differently now?

Mr. John Gormley: I'll answer the second part of your question first. No, I wouldn't. I have given evidence here to show you very clearly that I was across the issue. And I think it's fair to say that I was more across this issue than other members of the Cabinet, with the exception, of course, of the Minister for Finance and the Taoiseach himself. And I had discussed it with Minister Lenihan. I had, as I said, discussed it with David McWilliams. Now, Mary Harney has made an interesting point here when she talks about challenging the consensus. Well I did challenge the consensus by taking a contrarian view. David McWilliams, as you know, was right about the bust, absolutely. I wanted to get his views and Minister Lenihan had taken on board his views as well. Both of us, therefore, were on the same page and-----

Deputy John Paul Phelan: Did you have a detailed understanding, though, of what this McWilliams option which you referenced-----

Mr. John Gormley: Well, if you read the David McWilliams e-mail, which I have supplied at the request of the Chairperson, he goes into quite a bit of detail. And that's why I put it to Mr. Lenihan and I said, "Are we going with the McWilliams option"? The David McWilliams option. And he said, "Yes". And that's why I was clear in my own mind that I could approve this. Now, also, bear in mind that this was an incorporeal meeting, where you're not present. I don't think it would have changed one thing by me being present. No other members of the Cabinet were present. It wouldn't have changed anything, and-----

Deputy John Paul Phelan: But you were the only one like, as far as I'm aware, who was given the option on that night of-----

Mr. John Gormley: I think he extended that courtesy to me because we had discussed it, and-----

Deputy John Paul Phelan: But do you think that that one-page e-mail from-----

Chairman: You're using a bit of time now so, and I need you to wrap up.

Deputy John Paul Phelan: I think that a one-page e-mail from Mr. McWilliams was fully ... full awareness, for you, I thought.

Mr. John Gormley: Well, the ... I ... as far as I know, the only difference ... I think David McWilliams was saying that the bond holders should not be included in the guarantee. That's the one change. The day following, he ... I don't think he was too concerned about that particular issue because again I got another e-mail from him. So that was the only difference as far as I can see.

Other than that, we had gone through it ... by the way, you know, we did have a Cabinet meeting the next day and it was actually open to any member of the Cabinet to say to Mr. Lenihan, "I don't want an incorporeal meeting, I want a full Cabinet meeting on this." That option was also open to myself. I didn't feel it was necessary, nor did I feel, having discussed it at Cabinet the next day, that it was necessary.

But you have to remember this and bear this in mind at all stages, we were told that this was a liquidity problem. We were not told that it was a solvency problem. We couldn't have known that, nor could Minister Lenihan, and, therefore, we were working on that basis. And we were, effectively, misled by the banks on that issue and that's why we progressed and that's why we made that decision. But, likewise, I would put it to you as well, Deputy, that the Opposition parties were briefed as well. We had to vote on this issue. This wasn't a decision that was made in the middle of the night really, because the legislation had to be voted on in Dáil Éireann. And the Opposition parties were briefed. They were given the same information that we were given. I don't think the Department for Finance hid anything from the Opposition parties. And, again, you were probably given misleading information because, again, you were told that this was a liquidity problem. We now know it was a solvency problem but that's what we were going on at the time.

Chairman: Thank you.

Deputy John Paul Phelan: Thank you.

Chairman: Deputy Michael McGrath.

Deputy Michael McGrath: Thank you very much, Chair. You're very welcome, Ms Harney and Mr. Gormley. You said there, Mr. Gormley, that the Government was misled by the banks which implies belief, on your part, that the banks knew that the situation was more serious than had been presented. Is that what you're saying?

Mr. John Gormley: Well, I can't say that for certain. I mean, I ... I'm sure, Deputy, that there must have been some individuals in the banks who knew that the situation was pretty dire. And, in any event ... and you know, the financial experts will tell you, sometimes it's difficult to know when a liquidity problem becomes a solvency problem. Where is that threshold? But I do believe that there were individuals who must have known, in the banks, that there was a problem. That's my view. Do I have evidence for that? I don't.

Deputy Michael McGrath: Sure. When you say a problem, do you mean that they were insolvent?

Mr. John Gormley: They must have known, some of them must have known that they were insolvent, yes.

Deputy Michael McGrath: Okay. But you don't have any evidence for that, it's just a belief.

Mr. John Gormley: I don't have evidence of that, Chairperson. I am just saying that is my belief based on the, sort of, cavalier attitude that was, for example ... well, I have to be careful ... I've told ... I have to be careful in what I say because there are trials taking place right now so perhaps I should not say anything more than that.

Deputy Michael McGrath: Ms Harney, do you share that view that the Government was misled?

Ms Mary Harney: I certainly remember a conversation at some point with Minister Lenihan, when he relayed to me that he just worried was he being told the truth. It was not that night, it was not that week, but it was probably shortly thereafter. He was very worried about whether he was getting the correct information or not, that's a fact. I am not in a position to judge.

Deputy Michael McGrath: Sure. Mr. Gormley, when you had the conversation with Brian Lenihan at two in the morning and he invited you in as such, and you asked him the question, "Are we going with the David McWilliams option?", how did you know that Minister Lenihan knew what the David McWilliams option meant? Had there been a discussion at Government level or a bilateral one between you and Minister Lenihan where the McWilliams option, as you put it, was thrashed out?

Mr. John Gormley: Well, as I explained in my official statement and also in my opening remarks, a meeting did take place on the Sunday. I met with the Taoiseach and with Minister Lenihan in the ante-room opposite the Cabinet room. I had told David McWilliams in advance that I would pass on his ideas. He had written an e-mail and quite detailed as you can see in the appendix. I passed that e-mail on to Minister Lenihan and I said, "Are we going to do this?" We discussed it but it was a fairly cursory acknowledgement of this. I think there was also an element of Minister Lenihan not wanting the Department to know that he had been in discussions with David McWilliams. I don't think David McWilliams was, perhaps, well got in the Department and so I was fairly circumspect in what I said but I did pass him the document, it was quite detailed. And so, to answer your question directly, yes, he absolutely knew what was meant by that.

Deputy Michael McGrath: Just to clarify, when you said, "the David McWilliams option", what did you understand to be the David McWilliams option?

Mr. John Gormley: The full guarantee of the institutions and what was outlined in his e-mail. He did not favour the idea of nationalisation. In our telephone conversation I had put it to him, and I had put it in, you know, in a broad way because I recall quite vividly that he wanted to know what the Minister had decided. Now, I was not in a position to tell him that because we hadn't actually made a Government decision at that stage, nor would I have told him in any event because I was aware of his dual role. He was giving us advice but he was also a journalist so I had to be extremely careful of what I said. But when I did talk about nationalisation he said ... and the way I put to him and I do recall, "What is wrong with nationalised banks?" That is the way I put it to him. He said, "No", absolutely, and essentially, the message was that markets don't like nationalised banks and so, therefore, nationalisation was off the cards. And he was ... I think he explained it in the e-mail but also I think he explained it in a newspaper article that he wrote for *The Sunday Business Post* as well, the ideas that he was putting forward, how this

was to be done and that is what followed.

Deputy Michael McGrath: Okay. I have asked that page 1 of the appendix would be put up on the screen, this is the e-mail correspondence. And towards the bottom of the page there, this is an e-mail from Mr. McWilliams on 26 September to yourself Mr. Gormley, "...for the Green Party, agreeing to the present Lenihan package will be political suicide as you will never be forgiven by the electorate and the Greens will forever be besmirched with Fianna Fáil policy mistakes". What was the understanding of the Lenihan package being referred to there?

Mr. John Gormley: I think the ... he, in our conversation and it goes back to our telephone conversation, I was given the impression from David McWilliams and again in fairness to David McWilliams, he did not want me to know the extent of his contact with the Minister, but I think it was clear that Minister Lenihan at that stage was considering nationalisation and-----

Deputy Michael McGrath: Did he relay that directly to you or was that through Mr. McWilliams-----

Mr. John Gormley: No, he didn't. The Minister didn't say that to me. The Minister always played his cards close to his chest and, you know, he did not want to say that probably to me but I knew from ... and this was the peculiar situation I was in, I was hearing what the Minister was thinking from David McWilliams and that's what he said. David McWilliams is very clear in that e-mail, as you can see, that we weren't to go down that particular route; we were to go with the full guarantee.

Deputy Michael McGrath: And over the page he sets out a proposed solution, a full Government guarantee of all deposits for two years, not shareholder funds - they took a gamble, tough luck. He goes on to say that the Department of Finance is worried that people will call the Government's bluff and they will have to come up with the cash for this, "Believe me, this will not happen." So the view being put forward was that a guarantee would be cost-free and ultimately that there would be revenue to the State by way of guarantee fees of €1.5 billion per year.

Mr. John Gormley: Well, again, in fairness to Mr. McWilliams, he did not know that we were dealing with a solvency problem. He did not know that nor did I and, therefore, he was going on the assumption that this was a liquidity problem and that this was by far and away the best solution.

Deputy Michael McGrath: Just to clarify, at the top of that page under "Solution" a full Government guarantee of all deposits for two years - not shareholder funds. What did you interpret that as meaning in terms of bonds for example?

Mr. John Gormley: I took that to mean that the famous bondholders wouldn't be included in the guarantee. I think that's what I took it to mean but I didn't, I didn't get clarification from him on that.

Deputy Michael McGrath: That it would be just deposits included?

Mr. John Gormley: Yes.

Deputy Michael McGrath: Okay, so prior to his e-mail to you of 26 September, you had no inclination that Minister Lenihan may have had a preference for nationalising Anglo and Nationwide?

Mr. John Gormley: No, I did not.

Deputy Michael McGrath: Okay. So that came to you via Mr. McWilliams by way of that correspondence?

Mr. John Gormley: Yes.

Deputy Michael McGrath: Okay. And the meeting of Government on 28 September, I think Ms Harney you said that largely dealt with fiscal measures which were being planned. There was some discussion about the emerging liquidity issues in the banks, is that the case?

Ms Mary Harney: Yes, just at the very end. It was essentially about the Estimates for the upcoming budget and at the very end, the Minister for Finance, if I recall, just gave us a brief about the emerging liquidity issues in the banks.

Deputy Michael McGrath: But there was no indication of what was to come 24 hours later or so?

Ms Mary Harney: None whatever, no.

Deputy Michael McGrath: Mr. Gormley you mentioned in your statement that you met with the Taoiseach and the Minister in the ante-room opposite the Cabinet room but that was a very brief discussion, is that right?

Mr. John Gormley: That was a brief discussion. I think it was a feature of our time in government, Deputy, that we were all extremely busy and under enormous pressure and rushing from one meeting to the next. It was clear to me that the Taoiseach and the Minister for Finance had been meeting upstairs, they were rushing from there. I said, "I want to meet with you because I have something I need to pass on to you." I had given that undertaking to David McWilliams. It was a brief discussion. I actually, funnily enough, I do not recall the liquidity discussion at the Cabinet meeting but I do recall the meeting in the ante-room prior to the actual Cabinet meeting.

Deputy Michael McGrath: Can I just take you back a little bit? The financial markets had been in turmoil really since August 2007. We had queues outside Northern Rock here in Dublin in September 2007. We know that from January 2008, the Department of Finance was preparing scoping papers around the issues of financial stability, was looking at contingency planning, including nationalising banks and consideration of a guarantee evolved over the following months. What level of awareness was there within your party and at Government level as a collective body of the looming crisis and the preparations which were under way or not under way during 2008?

Mr. John Gormley: Well, I made reference to the fact that I had raised the issue with the then Finance Minister at a pre-Cabinet meeting and I recall asking Brian Cowen at the time of Northern Rock how were our banks. And the then Minister gave me a Department for Finance answer, because I'd seen the same answer being given to the Opposition parties, I think, later on - that our banks were well-capitalised and that there was no problem.

To answer your other question: was I aware of contingency plans? No, I wasn't. I was interested in the testimony given by Kevin Cardiff to this committee because he indicated that plans had been prepared, contingency plans of some sort, over a number of months. Was this communicated to the Cabinet? No, it wasn't, and I wasn't aware of it. I only became aware of

these plans when I discussed it in the week previously that something was afoot, so to speak, but Minister Lenihan said, "Look, we're dealing with this." And that was ... it certainly wasn't months in advance, as Mr. Cardiff had indicated.

Deputy Michael McGrath: So, just to clarify, were there any discussions at Government level during 2008, prior to September, of the pressures that were clearly building up in the markets, the liquidity pressures on the Irish banks, the risk to financial stability and the plans that were being made to address those issues?

Mr. John Gormley: Well, I can ... well, Mary Harney may have her views, but I don't recall specific discussions, you know, re contingency plans, re nationalisation or the other option, which was the guarantee, of course. No, I don't recall those discussions at Cabinet level.

Deputy Michael McGrath: But even at an overall level?

Mr. John Gormley: No, I don't.

Deputy Michael McGrath: A briefing on the problems that were emerging which the banks were facing?

Mr. John Gormley: I don't have any recollection of a paper being presented on that issue.

Deputy Michael McGrath: Ms Harney?

Ms Mary Harney: I think we did have discussions on what was emerging in the international marketplace but, to the best of my memory, we were assured that everything was well here, as far as our banks were concerned; that they were well-capitalised and so on. But I would agree with Mr. Gormley, I don't think there was any huge discussion of this issue. I think it all happened quite suddenly in the end.

Deputy Michael McGrath: Ms Harney, you were in government since 1997, so right throughout the period. Where do you place responsibility for the economic crash and the banking crisis?

Ms Mary Harney: Well, in relation to the banks, you'd have to start, as I said earlier, with the banks themselves and so on, and those that audited and accounted ... did the accounting of the banks. But I think I said in my opening comments, when we entered the euro, with the huge availability of cheap money, we put a lot of effort into the whole conversion process, you know, what would we ... what rate would we go in at, how would we be affected *vis-à-vis* the UK - we were very concerned about the competitiveness issues there and the likely impact on inflation. I think, and this is with the benefit of hindsight, I think, if we'd put a process in place to look at the threats and the opportunities and the risks, we might have been able to take mitigating factors. Could we, for example, have decided to limit the amount of credit going into construction, or to any particular borrowers? Could we have introduced legislation to deal with the 100% mortgages? These are some of the issues that we might have been prepared to look at, or to have rowed back earlier on some of the tax-related property reliefs.

Secondly, I think, as I said, I think some of the public spending, based on what I call transient taxes ... we were incurring recurring expenditure, I suppose, based on taxes from the property sector, and that was a mistake. I think benchmarking, we should have benchmarked public sector salaries to public sector salaries elsewhere, rather than to public sector ... to private sector salaries in Ireland. I think that was-----

Deputy Michael McGrath: Sure.

Ms Mary Harney: -----that was an error.

Deputy Michael McGrath: But can I ask you, irrespective of the contributory factors, ultimately, does the Government of the day-----

Ms Mary Harney: Of course.

Deputy Michael McGrath: -----have to take responsibility for-----

Ms Mary Harney: Yes, absolutely.

Deputy Michael McGrath: -----the economic crash?

Ms Mary Harney: Absolutely, yes. I think I said that earlier. I said even though we wouldn't be involved in regulation at a micro level, we have to, ultimately, take the responsibility, yes.

Deputy Michael McGrath: And finally, can I ask you, Ms Harney, the ideology and the belief system of the Progressive Democrats clearly had a significant influence on Government policy throughout all of this period. Do you believe that it was disproportionate influence, relative to the size of your party? And do you believe that the overall policy in terms of regulation, the free market, for example, reducing and lessening the tax base, that those policies were very much espoused by your party?

Ms Mary Harney: Well, Deputy, the ideology that I have comes from my background. I believe in hard work and the dignity of work. I believe in lowering taxes on work. I think the things you want to encourage in the economy should not be subjected to high taxes. I believe in a broadened tax base and even when the Commission on Taxation, that was put in place post-2007, reported, they did not suggest increasing the tax rates. We do need a wider tax base. Regulation, I think, as document ... core document 40 will say, on page 87, I was the one that was being proactive, as the official says in the note to the Minister for Finance. I think there are a lot of myths about what we stand for. I'm for regulated markets, appropriately regulated markets. You know, way back when I was a Minister of State in the Department of the Environment, we established the Environmental Protection Agency because I felt local authorities hadn't the competence or the expertise to regulate very complex industries. In Health, we introduced new regulation of the Medical Council and of pharmacies - brought in lay majorities. In the Department of Enterprise, Trade and Employment, I introduced the new Director of Corporate Enforcement. I think that's an indication of my commitment to regulation. It's not regulation for the sake of it; it's regulation that is effective.

I believe ... we believe in a philosophy that encourages enterprise, rewards work. I was the Minister that brought in the minimum wage. So, sometimes there's a lot of myths about what we stand for. I think my philosophy and my approach to politics is shared by a wide number of people in Ireland. We certainly weren't a populist party in the run-in to the 2002 election. We were cutting back on community employment because I believed, at a time of full employment, we didn't need to be moving towards 40,000 people in community employment. That was unpopular, even among some of the Government Deputies, so I think we ... we reformed the insurance industry. Again, there was a strong lobby by the legal profession against that, but insurance came down dramatically following the introduction of the PIAB. So, I hope, Deputy, that in my philosophy and my participation in Government, I pursued what I believed was in

the national interest and I am proud overall of the achievements, but, of course, I regret very much the mistakes we made, collectively, as a Government, and the pain that that brought to so many of our citizens.

Chairman: Thank you. Senator Marc MacSharry, please.

Senator Marc MacSharry: Thanks very much, Chairman, and welcome to Mr. Gormley and Ms Harney. Can I just get this question out of the way first, this is for both of you: did you agree with the Exchequer and National Pensions Reserve Fund being used to recapitalise the Irish financial institutions? John, or Mr. Gormley, rather, first.

Mr. John Gormley: Okay. Ideally, no, but, you know-----

Senator Marc MacSharry: You were, kind of, in a decision-making capacity, so-----

Mr. John Gormley: Yes. When you find yourself in a corner, as we did, where do you go? You're going to have to try and find the necessary means to deal with the crisis and, therefore, I accept responsibility for political decisions that were made.

Senator Marc MacSharry: At party level, did you discuss different proposals or solutions to suggest to Government?

Mr. John Gormley: Well, at party level, we would have discussed a range of measures. I should have added in my opening statement that, as a party, a small party, for the first time ever in government, we operated without a party Whip, which is quite extraordinary; we hear a lot of discussion on that. And we made decisions by consensus, so we discussed every issue and we discussed it in detail, along with our advisers, but this ... you're asking specifically-----

Senator Marc MacSharry: Yes, just on this-----

Mr. John Gormley: -----about this issue?

Senator Marc MacSharry: -----because the old clock is ticking there.

Mr. John Gormley: I don't think there was a huge amount of discussion around this because the options were very limited.

Senator Marc MacSharry: The options ... and time was short, presumably?

Mr. John Gormley: And time was short.

Senator Marc MacSharry: Okay.

Mr. John Gormley: Time ... during our period in government-----

Senator Marc MacSharry: Is it fair to say then that you weren't coming with a counter-proposal to Government on these matters?

Mr. John Gormley: I think that is fair to say, yes.

Senator Marc MacSharry: Okay, that's fine. The same questions for Ms Harney then, just-----

Ms Mary Harney: In the election manifesto in 2007, we had suggested, if memory serves me right, that we wouldn't touch the National Pensions Reserve Fund, but, however, we were in

an emergency and if a family's in an emergency, you find resources wherever you have to find them. And, luckily, we had that €22 billion that we had reserved. Obviously, it was to be for future pension liability. And I don't believe there was an alternative, given what was happening in the markets at the time.

Senator Marc MacSharry: So you agreed with it?

Ms Mary Harney: Yes.

Senator Marc MacSharry: Okay, and just to say, at party level, were there any discussions within the Progressive Democrats to say, "Look, we have a counter-proposal", or-----

Ms Mary Harney: Well, Senator, I was in the unique position then that there wasn't a party to have a discussion-----

Senator Marc MacSharry: Yes, sorry.

Ms Mary Harney: -----the was no other-----

Senator Marc MacSharry: I forgot.

Ms Mary Harney: -----Independent Deputy.

Senator Marc MacSharry: Okay, okay. That's fine. So there was ... you had no counter-proposal then?

Ms Mary Harney: No.

Senator Marc MacSharry: That you were putting forward? Yes. That's fine, so. Can I just ask you ... I have a couple of stock questions that I've asked all political witnesses. One is, can either of you recall any instance where a political party, a body, a politician, a charity or anybody else lobbied or made representations to you to decrease expenditure or increase taxation? So, Mr. Gormley?

Mr. John Gormley: We were getting lobbied all the time.

Senator Marc MacSharry: To do that?

Mr. John Gormley: Well, to ... yes ... to ... you get lobbied by various groups, if you had-----

Senator Marc MacSharry: To reduce expenditure?

Mr. John Gormley: No, not to reduce expenditure-----

Senator Marc MacSharry: Well, then that's point I'm making-----

Mr. John Gormley: -----to increase expenditure-----

Senator Marc MacSharry: -----so "No" is the answer to that one. My point exactly. And on taxation then, was there many, or anybody, lobbying you to increase taxation?

Mr. John Gormley: To increase taxation?

Senator Marc MacSharry: Yes.

Mr. John Gormley: No, not that I recall, Deputy.

Senator Marc MacSharry: That's great. And that's the same two questions then for Ms Harney.

Ms Mary Harney: Well, some of my economist friends may have been lobbying on the expenditure, I've no recall - by reducing it, I mean. But certainly there would have been plenty of people advocating increasing expenditure. There was an infinite demand for more and more. And, in fact, it was very hard during the boom years when we were running huge surpluses. It was very hard to say, "No", to certain groups and to explain why it was that we couldn't just do everything. But I don't remember anybody advocating-----

Senator Marc MacSharry: Okay.

Ms Mary Harney: -----advocating reducing expenditure other than, as I say, a few select economist friends, perhaps.

Senator Marc MacSharry: That's perfect-----

Mr. John Gormley: I think I should add that, in the Green Party manifesto, we did suggest increasing the tax take, and we did have a number of options. And there were people that were lobbying us in relation to a different form of property tax, site value tax, for example.

Senator Marc MacSharry: And were they politicians?

Mr. John Gormley: No, they weren't politicians. No. Certainly not.

Senator Marc MacSharry: Can I ask just in the context of external influences on Cabinet, there's been some evidence from the chief economist in the Central Bank, for example, who was alleging political and property interest that were impeding upon his ability to get his message across within the Central Bank? In your experience, Mr. Gormley, was there any external influence of a property or political nature which brought to bear on policy as opposed to best intentions in the interest of the people?

Mr. John Gormley: Well, I do recall I had a spat with Tom Parlon at the time of NAMA because we wanted to include a windfall tax, and we did, in that legislation. He was absolutely opposed to it and we also spoke about social dividend. He felt that that had no place in the legislation. I know that he was lobbying subsequently and the windfall tax was then removed, regrettably in my view, because it was a way of dealing with the whole question of over-zoning, which we were trying to deal with at the time. So, yes, it is my view, and I think I said this in my official statement, that there are certain lobby groups which have huge access to the corridors of power. And that particular group, I think, has inordinate influence.

Senator Marc MacSharry: Yes, okay. Just very quickly. Ms Harney, you mentioned that there was a lot of pressures to spend the national reserve fund. Where were those pressures from?

Ms Mary Harney: No, sorry, I wasn't talking about the national reserve fund. I was saying there was all this pressure for more expenditure.

Senator Marc MacSharry: No, but in your statement, did you not say that?

Ms Mary Harney: No, I don't think so.

Senator Marc MacSharry: Okay, maybe there's a misprint. I'll move on. Just ... in the context there, just to finish, you were describing how you were discussing with Mr. McWil-

liams and I think you mentioned you were finding out from Mr. McWilliams what Mr. Lenihan was saying. Ms Harney, you mentioned that you don't remember a discussion about that, there was general discussions at Cabinet about the international situation, but nothing specific to do with our banks. I mean, to the outsider looking in, and as someone who's never participated in a Cabinet meeting, I mean, was there a sense that you were passengers to these issues or I mean-----

Chairman: Final question now, Senator.

Senator Marc MacSharry: Yes. No, I did say that, yes ... that you were passengers to this issue or I mean ... is that the practice - that you depended on third parties like David McWilliams to find out what were going on in-----

Mr. John Gormley: No, I mean-----

Senator Marc MacSharry: -----in other areas or ... what way does that work?

Mr. John Gormley: No ... it was an unusual situation and it accelerated, obviously. I did not know, to answer your question directly, that there was going to be a meeting with the bankers the next day. I wasn't informed about that. But I did know that Minister Lenihan was thinking about these matters. I did discuss the issue with him. I was across the issue in the days preceding that. I think it would have been helpful but I mean, the fact is that Finance, the way they operate anyway - and I've been critical sometimes of the way the Department operates - that they often don't give you prior knowledge of what's going to be discussed. Whereas a Minister, if you are preparing a proposal, you have to go through all sorts of hoops. You know, you have to do a RIA, a regularly impact analysis, etc. The same laws don't apply to Finance. Very often, they would come to Cabinet and just put down a proposal a few minutes beforehand, which I found, frankly, unsatisfactory on occasion. But, no, were we passengers? No. Did things accelerate? Certainly. And I felt, as I said to Deputy McGrath, that, unfortunately, we were misled on the whole question of solvency.

Chairman: Okay. Deputy Eoghan Murphy.

Deputy Eoghan Murphy: Thank you, Chairman. Thank you to both the witnesses. You're very welcome. Mr. Gormley, I just want to, if I may, at the outset, just verify a quote of yours if I may. It's from a radio interview in December 2010 with Marian Finucane. And you say: "The arrangements have been made the previous Sunday", right? And we've gone into that in quite a bit of detail. And said: "Yes, this was the expert advice to go down the guarantee route." And she then asks you: "When was this decision made?" And you said: "That was on the day before; it was a Sunday. We had a cabinet meeting. We'd gone through it in quite a bit of detail, as I said." Do you recall saying that?

Mr. John Gormley: I do recall a meeting with ... sorry, an interview with Marian Finucane, and if the impression was given that there was a Cabinet decision, I think I've clarified that here today, that I spoke to Minister Lenihan and the Taoiseach at pre-Cabinet. Mary Harney has referred to a short discussion at the end of the actual Cabinet meeting which, frankly, I don't recall. But that ... the quote that you've just gave me ... have given me there, that may be slightly misleading because the account that I've given here today is accurate.

Deputy Eoghan Murphy: Okay. I mean, it certainly does give that impression. And if we go in later to the interview, Marian Finucane asks again: "Can I just ask you a question? I think the rest of us thought with the two Brians, that the decision was made that night." And you

responded, “Well, you couldn’t just make a decision on the spur of the moment. You’d have to discuss it for days in advance. Of course not. You can’t do it like that. Everybody had to be involved in what was the best thing to do in these circumstances.”

Mr. John Gormley: Yes. Yes. Well, that is true. We had to, you know, discuss this. I did discuss it with the two Ministers on the Sunday, and that is absolutely the case.

Deputy Eoghan Murphy: Okay, but is it fair to say that the impression that you gave in that interview in 2010 was that a decision had been made by Cabinet on the Sunday?

Mr. John Gormley: Well, I mean, I’ve seen it quoted, and I’ve seen it quoted in that context and, unfortunately, it has been interpreted in that way but that’s not the impression. I didn’t want to give the impression that the Cabinet had decided because, clearly, the Cabinet had not decided on that issue.

Deputy Eoghan Murphy: Okay. And “Everybody had been involved in what was the best thing to do in these circumstances ... we’d been discussing it days in advance”-----

Mr. John Gormley: That’s true.

Deputy Eoghan Murphy: I mean, are you referring to the Cabinet meeting the day before in which you had a brief discussion with the Minister in the anteroom?

Mr. John Gormley: We had been ... well, I think the e-mails show in the evidence that I’ve laid before the committee is that it had been discussed in quite a bit of detail in the days beforehand. And I had been discussing it, as I said, with ... people have referred to it as a contrarian view. I discussed it with David McWilliams, I discussed it with the Minister for Finance and the Taoiseach and it had been discussed. And I think you can see from the e-mails that they’re quite specific. And, you know, it’s going into quite a bit of detail.

Deputy Eoghan Murphy: Can I just to clarify then, no decision made on the Sunday, not even informally, to go for the guarantee?

Mr. John Gormley: That was ... I’ve made that very clear in my opening statement and, indeed, my opening remarks, that there was no Cabinet decision in relation to it.

Deputy Eoghan Murphy: Okay. Can I move forward then to the Cabinet decision on the bailout, which was 27 November 2010? And the Cabinet was informed that there’d be no burden-sharing in the terms of the troika agreement. And your reaction to that, please?

Mr. John Gormley: Well, we had to take legal advice on this. I listened carefully to the advice that we were offered by the Attorney General. I think it’s fair to say that ... and, you know, as Mary Harney said we’re going back a period of time now and I’m trying to recollect exactly but it’s often been said that we didn’t resist, that we just caved in; that’s not the case. Minister Lenihan did make efforts to include bondholders. He did want to, actually, to use that phrase that has become often used now, “burn bondholders.” But a number of things happened. First of all ... and this is ... I’m just ... you know, this is my recollection, we did get some support from Strauss-Kahn, who was supportive of our ideas in relation to this, but Trichet wasn’t supportive and particularly then ... I’m thinking back ... there was a meeting then subsequently where Tim Geithner was there and he was not supportive. And the very clear view of the Attorney General at that stage was that they were to be treated in the same way as depositors and so, therefore, it was not possible. And that’s my recollection of that.

Deputy Eoghan Murphy: Can I just ask from your recollection as well, when the terms of the bailout were given to the Cabinet in terms of no burden-sharing and the interest rates that were to be applied, did someone describe it as the Treaty of Versailles when what was needed was a Marshall Plan?

Mr. John Gormley: Yes.

Deputy Eoghan Murphy: Do you recall that exchange? And then that person being told not to say anything like that outside of the Cabinet room?

Mr. John Gormley: That does actually ring a bell and ... but I ... let me ... it does ring a bell but I can't recall. I mean, we were ... I mean, you can compare it to the Greek situation, right. People say, you know, "We ought to have stood up to these people." Well, we did stand up, but there comes a time where you have to use, you know, your political smarts and know when you're beaten. We're a small island in the Atlantic. We don't have huge power or influence. We're up against the might of these people. So what are you to do under those circumstances? Well, we said, "The only thing that we can do is to go along with this as much as it sticks in our craw." And it did. And I think it was the right decision, Deputy, because if we had gone down the Greece route, well, you see what the consequences can be. And I do remember saying to people, "You know ... and people thought I was exaggerating at the time, "You know, we are in a very difficult situation here. If we don't get this right, the ATMs will close." And people thought this was a gross exaggeration. Well, you can see now that it wasn't. The ATMs could have closed and we could have had a very serious situation, so I think we made the right decision.

Chairman: I'll just allow you a supplementary there if you're not finished, Deputy. You've some ... on this same line of questioning - nothing new, now.

Deputy Eoghan Murphy: I just hadn't had a chance to ask Ms Harney a question, Chair.

Chairman: Well, okay, there's gender parity here. I'll allow that but very, very briefly, okay. And not a whole new line of questioning.

Deputy Eoghan Murphy: Thank you, Chair. Ms Harney, it's just in relation to fiscal policy at the adoption of the euro, because you mentioned it in a bit of detail in your statement.

Ms Mary Harney: Yes.

Deputy Eoghan Murphy: And you talked about in hindsight-----

Ms Mary Harney: Yes.

Deputy Eoghan Murphy: -----it's clear that some significant policy adjustments were needed from about 2001 onwards and it was exactly the beginning of 2001 that the Commission and the Council censured us for incorrectly using fiscal policy and for overheating the economy. And an article at the time from the RTE said, "Harney accuses European Commission of misjudging Irish economic situation." Now, obviously, you didn't choose the headline, but, in that article, you criticise Europe for not understanding actually the budget situation in Ireland at the time. So, on reflection, was the Council correct?

Ms Mary Harney: No. I think, to be fair, the Council was taking a view towards Ireland that it didn't take towards other larger countries. I think the point I was making about the euro was a different one. I think if we had put the effort in post-joining the euro that we put in to

the preparation of joining the euro, we might have been able to identify the risks earlier and to have mitigated some of the difficulties, and I regret that we didn't do that. And can I just reflect back on the question you asked, if it's in order, Mr. Gormley? From the time Chancellor Merkel and President Sarkozy made their comments at Deauville that peripheral countries' bondholders ... bonds would not be fully honoured, we were on a hiding to nothing, quite honestly. The momentum after that was just incredible. And Olli Rehn came to Ireland. And in relation to trying to get a better deal, I think the IMF were supportive, the ECB weren't, and that was our difficulty. We sought the write-down of senior debt in the banks and, to the best of my knowledge, the IMF were very supportive of that but the ECB weren't. And by the time it happened, we didn't have an alternative, quite honestly.

Chairman: Okay, thank you very much. I'm just going to take some questions myself and then maybe propose we might take a short break after that then, if that's agreeable.

Mr. Gormley, just with regard to your own witness statement, you state that circa ... in and around quarter 1, 2009 ... this is on page 5 of your statement:

An immediate nationalisation was ruled out as the state would not be able to manage the loan books of all six banks at the one time. There was also still the prospect of either AIB or Bank of Ireland being solvent.

Can you advise what parties were involved in these discussions and was solvency a significant concern? Did you ever look at the possibility of liquidation?

Mr. John Gormley: Well, on that particular question and, as I said, that part of my statement is based on contemporaneous notes taken by my colleague, Eamon Ryan. He was in attendance at those meetings, I was not. And what I could do, if it's all right, Chairman-----

Chairman: Yes, sure.

Mr. John Gormley: -----I do have some notes from Eamon Ryan. I could consult those in the break and come back to you with an answer but I-----

Chairman: Okay, we can resume after the break on that. Just on other matters related to that. I think earlier you commented upon ... that there's nothing wrong with nationalised banks. That was a general sentiment you expressed earlier.

Mr. John Gormley: Well, no, I didn't say that. What I said was, what is actually wrong with nationalised banks? That's the question I put.

Chairman: Okay, and if I can maybe just draw you back to your discourse and engagement with Mr. McWilliams in that regard. What is ... what was your view, or Mr. McWilliams' view, with regard to liquidated banks and was this issue discussed with Mr. McWilliams at all?

Mr. John Gormley: Well, I think the problem there is that the idea of ... as its ... letting Anglo go, I think, it's been ... I think, if I recall, your own party leader favoured that particular option. But, you know, I think it would have led to chaos and I think Governor Honohan said that subsequently as well - that it was not an option. I don't want to say that that was the actual David McWilliams view because the liquidation of Anglo is not something that I recall in detail as a topic. But the ... what I was trying to get at is the option of the State taking over the banks and that was not something that he favoured.

Chairman: Okay. And maybe Ms Harney might come in on the next question as well. If

you feel free to, just indicate to me. Just staying on that particular issue, Mr. Gormley, what options did you and Government colleagues and/or advisers discuss and what were the main influencing factors to nationalise Anglo and not to recapitalise in January 2009?

Mr. John Gormley: What were the ... again, come back to me again please?

Chairman: What options did you and Government colleagues and/or advisers discuss and what were the main influencing factors to nationalise Anglo and not recapitalise in January 2009?

Mr. John Gormley: Well, again, I'm not trying to dodge your question in any way but-----

Chairman: We can return after the break ... sure.

Mr. John Gormley: No, but it's ... even ... even if we come back after the break on that particular one ... I will check the notes supplied to me by Eamon Ryan, but it's clear to me even now that those meetings were attended by Eamon Ryan - those meetings in relation to Anglo. I wasn't present but I can go and check the notes and come back to you.

Chairman: And sure-----

Ms Mary Harney: I'm happy to answer from my perspective if you wish.

Chairman: I can indeed and I'll bring you in in a second there, Ms. Harney. And I can certainly take that on board, that Mr. Ryan was far more intimate with these matters than you would have been. But the question would be to yourself, Mr. Gormley. To your information, what was being presented to you, what did you consider the options to be and what advices were you partaking in? I know Mr. Ryan was more central to that process but you would have been in orbit to it. So maybe you could answer the question in that regard.

Mr. John Gormley: Sure. Well, the options were presented to us at ... are you talking about Cabinet meetings?

Chairman: No, I'm talking about the issue to nationalise Anglo and not recapitalise it in January 2009.

Mr. John Gormley: Well, again, at that stage - and I think it was made clear in my official statement - it became very clear to us that the Anglo debts were massive, that they were insolvent. The only option at that stage - and it was a road that, I think, the Taoiseach was always reluctant to go down but it became inevitable - was to nationalise. And it was the option, I think, that nobody favoured. It was quite clear to us at that stage that we had an insolvency problem across the board and there was also ... in relation to Anglo, I do recall, it was always said to us by Minister Lenihan that it was a systemic bank and that, you know, for a number of reasons that it was linked as well to, for example, the credit unions and there was a lot of cross-securitisation and that it was linked as well to various other banks because of interbank lending. And so that was the reason that ... for a lot of us it was the last option, and that's why we considered and that's why he gave us ... he gave us a good briefing at that time, and said to us that that was the option that we should go down.

Chairman: Ms Harney?

Ms Mary Harney: I think at that point there were only two options, it was systemic and that's why it was covered by the guarantee. The only two options were nationalisation or liqui-

ation. You clearly wouldn't want to liquidate when the Government had guaranteed the bank, that would be the worst possible time to do it so nationalisation was the only option. The bank, it was clear to the Government that the bank was insolvent, at that point.

Chairman: Okay. And if I can maybe just come back to what I was speaking to yourself Ms Harney, just give me one moment there and I'll deal with it. It's in regard to, yes ... I'll just bring up some documentation ... this is just a reflection of a series of correspondence that took place between yourself and then Minister for Finance, Charlie McCreevy. And the question kind of relates to the reorganisation of the Central Bank and the creation of IFSRA and the establishment of the Irish financial regulatory office and so forth. Maybe if you could just maybe expand upon this Ms Harney that, as Minister for Enterprise, Trade and Employment, you were directly involved with the reorganisation of the Central Bank. And, in hindsight, would you do things differently now? And maybe comment upon the specific evidence as well. I know you're familiar because you asked for some additional documentation to be added yourself. You might just consider what was the general discourse going back and forth between yourself and then Minister McCreevy's office at the time?

Ms Mary Harney: Well, I think it's fair to say that the Central Bank and the Department of Finance were against any, certainly ... the greenfield option ... and then the ... I was keen to ensure that we'd better regulation, that we'd more proactive regulation and that we'd a single regulator. As I said, the Department of enterprise was responsible for insurance and credit unions and I didn't believe that that was satisfactory. We neither had the expertise nor the resources to do that. And added to that were the inquiries and then the charges, the hidden charges, the fact that the banks were misselling products to their customers and so on. So a process was put in place, chaired by Michael McDowell, senior counsel, I think there were nine members of it ... including representatives of various Government Departments, a lawyer and a number of other outside people. And they favoured, by a majority, a greenfield site.

And in the intervening period between reporting and the time the joint memo was brought to Government there were lot of discussions back and forth between my Department, both at official level and a political level, in relation to a solution or an agreement. And because the request was for the Governor to be able to give directions when anything to do with financial stability was involved, I was happy to agree with that obviously. The Government had its own responsibilities. We then came forward with a joint memo which is roughly around the two pillar approach, I think the secretary to the Government, Dermot McCarthy, was very involved in that mechanism too on behalf of the Department of the Taoiseach.

So we came forward with the two-pillar approach, under the auspices of the Central Bank. And after the legislation was passed I wasn't involved any more in ... I had no further role. If memory serves me right, I think the Secretary General of the Department of Finance may have sat on that overarching body and the authority would have reported in, both to the Department of Finance and to the, perhaps to the Oireachtas as well, I think.

But I think I said earlier, in response to Deputy Phelan, regulatory change alone, or sorry structural change alone doesn't change the culture. Now there were regulatory deficiencies at European level which have been since addressed, given we were in a monetary union. They didn't exist until relatively recently. But there's no doubt that the culture was one of deference. And although I want to emphasise the first responsibility is with the banks and thereafter their accountants, the regulator or the Central Bank are down the line from that. But I think there was neither sufficient resources applied to regulation to just have as ... as Governor Honohan, or Mr. Honohan, said in his report, I think he said there were two people responsible for each

of the bigger institutions. There's no way that's possibly, that that could possibly be adequate, dealing with a very complex industry.

Chairman: The kind of a narrative I just want to establish around that because ... one of ... I'd be in the Parliament when you were there yourself, as a Minister, and the one thing I admired about you was you seem to almost have a photographic memory. I might be incorrect in that regard but the way that you can kind of quote back the figures-----

Ms Mary Harney: It's not as good as it was, Chairman, but I'll be as helpful as possible.

Chairman: I ... I don't suffer from the same thing ... or I don't actually have it, I suffer from the quite the opposite because I'm misnaming members of this committee at times and all the rest of it. But I tend to recall that there was a ... maybe a conflict might be too strong a word, but there seemed to have been a strong position coming from your Department and a strong position coming from Minister McCreevy's Department, and maybe you could elaborate was that actually a conflict? Was it an issue as to whether the regulator's office, because there was a lot of issues relating to consumer affairs and consumer protection, that it should be moved into your office? Was there something that you would try to appropriate the regulator's ... or some of their functions and duties, as something that is an enterprise and trade related issue? And also ... or was it that really we shouldn't be separating and fragmenting the role of the regulator? We've had testimony here from Mr. Cyril Roux recently who more or less said that what the ... in summary, that every country had principles-based regulation but it just seemed to have been operated differently in Ireland. Was there an indication of that concern, that if the regulator was kind of put out in that regards, that's something else? I mean, if you could just explain to us what the narrative of this discussion actually is between yourself and Mr. McCreevy.

Ms Mary Harney: Well to be fair I'd say it was more at official level than discussions between myself and Minister McCreevy-----

Chairman: Well the broader matter.

Ms Mary Harney: -----but essentially the Department of Finance and the Central Bank took one view and everybody else probably took a different view. The Central Bank had traditionally given responsibility, or if memory serves me right and I hope it does, there was an issue around bank charges and the Central Bank referred that to the director of consumer affairs. I was anxious to ensure that there was a strong consumer focus, given what had happened. Remember, when these decisions are made they are made in an environment of what's happening at the time and, as I said earlier, I did take the opportunity to read the debate in the Oireachtas and the focus of everybody was around consumer protection and the fact that it hadn't been taken seriously heretofore.

The lesson I suppose, Chairman, is that having established a new regime we probably should have been more hands-on or more proactive in inquiring how it was progressing. But remember the backdrop then was that there were no prudential issues. There were issues raised about the expertise in the country and how limited that is, and I share that view, we are a small country. So I wasn't anxious to establish an organisation for the sake of it. What concerned me was not the shape of the body that emerged but rather what the body was going to do. And it was my genuine view, given that there was a director of corporate ... of consumer protection, a statutory consumer protection directorate, I was very happy with that.

I've seen subsequently at this committee reference was made that we didn't have a similar

person for prudential regulation and perhaps the reason for that there wasn't perceived to be any issue with prudential regulation. And indeed any of the external analysis of the country, including the IMF, the OECD reports in 2006 and 2007, and the stress tests done, all gave us a very clean bill of health. That is a fact.

Chairman: Okay. I just want to conclude with this matter ... sorry, yes, sure, Mr. Gormley.

Mr. John Gormley: If I have time to read a note there it might be helpful to you, and it's a note from my colleague, Eamon Ryan, and it's about the nationalisation of Anglo, which you referred to. And what Eamon Ryan said to me, because obviously he knew I was coming before the committee, he said that at a meeting of the North-South council in late November, Brian Lenihan told him about the revelations he had been told about the Maple Ten share-buying arrangement. In early January Brian Lenihan told him about the INBC-Anglo balance sheet transfer and he says as he recalled he shared the info with Dan Boyle on that occasion. The decision to nationalise Anglo was actually made in a meeting in Brian Lenihan's office which was attended by Eamon Ryan, Brian Lenihan, David Doyle, Cathy Herbert.

Again, Eamon Ryan would have talked to us subsequently about that before it went to Cabinet, so that's the information that I have in relation to that.

Chairman: Okay, we might come back. Just, finally, I want to deal with two other matters. And if the whole story was a movie, the two big scenes in it would be the night of the guarantee and the entry into the bailout programme, but life isn't like that. It doesn't have big moments, it's a series of events that maybe have significant events actually through it. So can I maybe ... this is a question I put to other Government Ministers as well and ... I'd appreciate it if you could maybe just deal with the question rather than a more, longer, response. But, in general terms, did the structure or design of the banking guarantee, of the bank guarantee, along with its period of duration, have any bearing on the Irish State entering a bailout two years and two months after the bank guarantee?

Ms Mary Harney: Sorry, Chairman, I didn't hear.

Chairman: Did the structure or design of the bank guarantee, along with its period of duration, have any bearing on the Irish State entering a bailout programme two years and two months after the bank guarantee?

Mr. John Gormley: Well, Chairman, you compared it to a movie. I think a narrative, a political narrative, has evolved around the guarantee, and it goes something like this: the bank guarantee was the worst decision ever made in this country, and that all our woes stem from it; two, that Fianna Fáil was up to something shady with Anglo; and, three, that the Greens didn't know what the hell was going on, right. Now, I think the evidence supplied here to you today shows I think that ... I don't have the evidence to support that narrative. The fact is that, as Governor Honohan said-----

Chairman: With respect, Mr. Gormley, that's not the question I asked you-----

Mr. John Gormley: I know but I'm getting to the point. The point is-----

Chairman: The guarantee was predicated on the fact-----

Mr. John Gormley: I don't agree with you. I don't agree with you because that goes down the route of saying, "This was the worst decision ever made, and, therefore, our problems stem

from that, therefore, we went in ... this is the reason we went into the bailout, because of the guarantee". Our choices were extremely limited. Most of the damage was done before the guarantee - 90% of it. And, you know, as I said it was the least worst option under the circumstances and it wasn't the cause of us going-----

Chairman: I'm not questioning the ... how the guarantee was arrived at, or anything like that, and I'm not raising issues as to what were the options on the night, but a guarantee of a specific design was put in place.

Mr. John Gormley: Yes.

Chairman: That is a fact. The reasons and motivations for this we can continue to examine, and why it shaped the way it was, we can continue to examine. But a particular shape was put in place, and the question simply, Mr. Gormley, and I'll come to Ms Harney on this, is: did that have any bearing in the way it was shaped to the country entering a bailout programme two years and two months? Because the narrative might be this was one big event and the next thing, there's another big event. There's two years and two months, actually, in between them. Did they have any relationship to one another?

Mr. John Gormley: The fact of the matter is that I believe, and you're asking me for my opinion-----

Chairman: Yes, indeed.

Mr. John Gormley: I believe the seeds of our destruction were sown before 2007, and we had no choice in relation to the guarantee. Of course, there were ... you know, every event was linked.

Chairman: What I want to deal with, Mr. Gormley, is the period after the guarantee, not the period leading up to ... the guarantee was put in place; that was a fact. Can you just - either it had a relationship to entering the bailout programme later on, or it hadn't. Maybe it's more nuanced than that, you can explain that.

Mr. John Gormley: I certainly don't want to concede that, because that goes back to that narrative of the guarantee being the worst decision. We didn't have any real choices-----

Chairman: The reason why I'm challenging on this is because Mr. Trichet, in his testimony before this inquiry, would relate to that theory and Mr. Trichet's testimony must be tested-----

Mr. John Gormley: Well, Mr. Trichet's-----

Chairman: -----as must be every other person's testimony. Mr. Trichet is saying, when he came before ... when we met him in Kilmainham, he says, "[As] you know, we could [...] have continued on our side [...] having gone up to 100% of GDP [...] to 200% of GDP, [This is all the liquidity that was going into the banks after the guarantee] and why not 300% of GDP? [I can't do the French accent, so I'll just do the dramatics] Then what would [...] the Commission [of the] inquiry be asking for? You would say, "Were you totally crazy at the ECB to continue, when you were going [to] the wall at 100 miles [an] hour, to continue [providing] liquidity and liquidity and liquidity?" So is Mr. Trichet right? Were we actually going into a bailout programme?

Mr. John Gormley: I think Mr. Trichet's evidence was comprehensively challenged by Mr. Cardiff when he was here, and I would certainly go along with what Mr. Cardiff said in relation

to that.

Chairman: Okay. Ms. Harney?

Ms Mary Harney: They're interrelated, certainly, of course. The reason for the guarantee was the banks hadn't got access to money and they were losing it pretty rapidly. The reason we subsequently ended up moving into a bailout was because of rapid increase of cost of borrowing on the markets, and I referred earlier to Chancellor Merkel and to President Sarkozy and the comments about peripheral countries. Once that statement was made, it was inevitable. I mean, the domestic view was that we'd enough money - I think Mr. Corrigan may have said this before this committee - for another six months or so, but, to be honest with you, things moved very fast around that period, so fast it was quite scary. And the bailout became inevitable. And there was a difference in the support between the IMF and the ECB around that time, I do know that.

Chairman: Okay. Just one final thing, just to clear up with Ms Harney. Earlier you said that the banks were insolvent, to your view. Did you say that?

Ms Mary Harney: No. I said ... at the time of the guarantee, the issue was liquidity and the reason for all of that was reckless lending of course. Subsequently, we became aware that Anglo was insolvent and that was the reason for the nationalisation.

Chairman: Okay.

Ms Mary Harney: If I used the word "insolvent" just there, I meant "liquidity" actually. Sorry.

Chairman: Only for Anglo, okay. And when did you become aware that Anglo was insolvent?

Ms Mary Harney: Probably around the same time as Minister Gormley.

Chairman: Which was?

Ms Mary Harney: In the run-in to the nationalisation of it.

Chairman: All right. Thank you. I now propose that we take a break for about six minutes. And, in doing so, just to let the witnesses know that they're still under oath, that they can consult with their ... whatever support or legal advices that they have with ... there, and that we resume at 5.00 p.m. Is that agreed? Agreed.

Sitting suspended at 4.56 p.m. and resumed at 5.14 p.m.

Chairman: Okay. With members' permission so, we'll go back into public session and continue our engagement with Mr. Gormley and Ms Harney. Is that agreed? And, in doing so, can I invite Deputy Kieran O'Donnell. Deputy, you've six minutes.

Deputy Kieran O'Donnell: Welcome, Mr. Gormley and Ms Harney. A question for Ms Harney. With the establishment of the single ... of the whole, I suppose, regulation ... the new regulation mechanism and, prior to that, your Department was in charge of the insurance sector. Do you believe there was a knock-on effect in terms of the regulation of the insurance sector? And I'm saying that in mind with what has happened with Quinn Insurance. You might just give me your thoughts on that.

Ms Mary Harney: Sorry, Deputy, I don't understand the question.

Deputy Kieran O'Donnell: My question really is that ... under the Department of Enterprise, Trade and Employment, it regulated the insurance industry prior to the new financial regulatory framework being established in 2003. Do you think there were consequences, adverse consequences for the taxpayer, in the way insurance companies like Quinn Insurance were regulated under the new regulatory structure?

Ms Mary Harney: Well, the reason I was anxious to move the regulation of insurance away from the Department of Enterprise, Trade and Employment was because we didn't have the expertise or the resources. I said earlier we had the equivalent of half an actuary and I remember having very detailed discussions with officials and, particularly, the Secretary General of the Department. Clearly, we were concerned because of what had happened in 1985 with ICI, that we did not have the capability internally in the Department to deal with what was a very complex industry and also the coming together of banking and insurance. And a number of banks were involved in insurance products and it was better that they would be regulated with one pair of eyes, as it were. I think I need to be careful in relation to what happened with Quinn Insurance. Clearly, there were regulatory issues that have arisen there, and maybe issues that go beyond regulation ... very serious issues that had implications for the insurance industry in the country and the reputation of the insurance industry internationally, actually.

Deputy Kieran O'Donnell: Well, do you believe that there was the necessary financial and technical expertise in the new Financial Regulator to be able to regulate the insurance industry?

Ms Mary Harney: I am not competent, Deputy, to answer that question. The answer is I don't know, but one thing I do know is we didn't have that competence in the Department of Enterprise, Trade and Employment and the whole purpose of moving responsibility and having a single Financial Regulator was to have a more robust, more proactive regulatory environment with the appropriate expertise. And I did say earlier - and it's a view I formed during my time in government - that sometimes because of the salary implications of bringing in experts, many, on occasion, they have to be hired from outside the country. We go for bringing in two or three people when we might just need one with the particular expertise. I don't know if that was an issue.

Deputy Kieran O'Donnell: Well, then, finally on the point, do you believe or not that the new financial regulatory structure that was formed when you were in government in 2003 was fundamentally flawed, led to confusion in terms of people's roles and gave rise to the situation where the taxpayer ended up footing €64 billion gross in terms of the bailout of the banks?

Ms Mary Harney: I don't believe that the regulatory structure caused that. I emphasise again that I think the main responsibility must lie with those that made the bad lending decisions, the reckless lending decisions in many cases but can I say in relation to the regulator, it's been advanced here, both by Mr. Patterson who chaired the financial regulatory authority and by Patrick Honohan in his report, that the regulatory structure was not the cause of the problem.

Deputy Kieran O'Donnell: Yes, but, on a final point, do you not feel that the Financial Regulator, their first responsibility should have been to the taxpayer?

Ms Mary Harney: Their first responsibility was to ensure that the banks and financial institutions they regulated were robustly regulated. Reference has been made in other fora to principles-based regulation, but many other countries operated a principles-based regulation and did not have the issues that we had. Clearly, there were deficiencies in the regulation; there's no question about that.

Deputy Kieran O'Donnell: Can I ... Mr. Gormley, when did that meeting take place where the decision was taken to nationalise Anglo with Eamon Ryan, Mr. Brian Lenihan and you referenced David Drumm, sorry David Doyle?

Chairman: Freudian slip there.

Deputy Kieran O'Donnell: Okay, when was that decision taken?

Mr. John Gormley: Okay, we won't mention the war but I don't have an exact date. I will gladly come back to the committee with that date.

Deputy Kieran O'Donnell: Ms. Harney, you were in government for 14 years - in Cabinet uninterrupted - and, Mr. Gormley, you were leader of the coalition party in government with Fianna Fáil. Lehman's collapsed on 15 September. The bank guarantee was put in place on 30 September, over two weeks later. You had received information from David McWilliams that there was a need for a bailout programme. Mr. Gormley, did you-----

Mr. John Gormley: For a guarantee.

Deputy Kieran O'Donnell: For a guarantee, yes. Did you not think it appropriate to bring it up at the Cabinet meeting, certainly on 28 September, about the banking crisis? And, Ms Harney, did you not think it appropriate, with your experience as being a Cabinet Minister for 14 years' duration, to not bring ... that there wouldn't ... that this issue would not have been discussed in terms of Lehman's at a Cabinet meeting, certainly after 15 September?

Mr. John Gormley: Well, you're talking about the Cabinet meeting on the Sunday, the 28th.

Deputy Kieran O'Donnell: At a minimum.

Mr. John Gormley: Yes. Well, I did not have any indication that there was going to be a crisis meeting the next day. It wasn't on ... it wasn't on the immediate radar and therefore I didn't feel it necessary to bring it up at that stage. Now-----

Deputy Kieran O'Donnell: In hindsight?

Mr. John Gormley: Well, you know, I don't even like talking about hindsight. What I do know is that I did trust Minister Lenihan. In my view, he ... and I discussed this with Deputy Murphy, just in the break there, he was working very long days. He was trying to do his best and I do know that, had it been necessary, he would have broached the subject. But I suppose, Deputy, you know, none of us knew that this meeting, this crisis meeting, including Minister Lenihan because I'm sure he would have informed me on the 28th, "There's going to be a major meeting tomorrow." I don't think he knew at that stage and so events moved very, very quickly the next day and, you know, I was, as I said, across the issue aware of it, but your question relates to should I have brought it up at Cabinet and, at that stage, I suppose it just ... it just wasn't there at the top of my agenda at that moment, you know? I brought it up with Minister Lenihan and the Taoiseach before Cabinet but the way it operates normally, as you know, is that it's the line Minister that brings up items at Cabinet.

Ms Mary Harney: Deputy, the Cabinet process is very structured, so it's not a question of somebody says, "And, by the way, can I put my hand up and raise a particular issue?"

Deputy Kieran O'Donnell: I don't mean it in that sense.

Ms Mary Harney: No, I accept that. There would have been discussions amongst many of us about the emerging global situation, both with the Minister for Finance, with the Taoiseach and with others. It wasn't that we were oblivious to what was happening, I can assure you. Everybody was very much on alert. We knew the situation emerging in the banks was serious and my recollection of the meeting of 28 September is that at the very end, the Minister for Finance told us that the emerging situation in the banks was serious. The Minister sat beside me at the Cabinet, so I just want to be certain, because Mr. Gormley doesn't remember that, I might be confusing a private ... a conversation he had with me but I'm fairly certain he actually told the wider Cabinet. But I remember, on that evening, he was very concerned about the emerging situation in the banks from a liquidity point of view. There was ... even from anecdotal evidence, I knew people myself that were talking about going to take their money out and then there was a radio programme and so on, so there was a lot happening very quickly. But if the purpose of your question is to ask us were we mindful of what was happening in the international marketplace, we certainly were.

Chairman: Okay, thank you very much. Next questioner is Senator Michael D'Arcy. Senator?

Senator Michael D'Arcy: Thank you, Chairman. Ms Harney, Mr. Gormley, you're welcome. Thank you. Mr. Gormley, in the e-mails between yourself and Mr. McWilliams, Mr. McWilliams says, "The dept of finance is worried that people will call the government's bluff and they will have to come up with the cash for this." Was the Government guarantee a bluff and was it the most expensive bluff in Irish political history?

Mr. John Gormley: Absolutely not. It's a very serious matter and I think all of us at Cabinet were aware of our responsibilities and we acted on the best possible information. As I've said already, we were assured that this was a liquidity crisis and that's why we introduced the blanket guarantee on that basis. But to describe it as a bluff, no, certainly not.

Senator Michael D'Arcy: I think Mr. McWilliams did.

Mr. John Gormley: Well, I don't know is it fair to interpret his words in that way-----

Senator Michael D'Arcy: Sorry, just let me clarify for you.

Mr. John Gormley: He didn't-----

Senator Michael D'Arcy: If I could-----

Mr. John Gormley: I don't think he described ... he didn't describe the guarantee as a bluff, I don't think so.

Chairman: If you could actually cite the statement, it would helpful, Senator.

Senator Michael D'Arcy: Yes ... sorry?

Chairman: If you could cite what Mr. McWilliams said.

Senator Michael D'Arcy: Sorry, it's part of the documents ... it's appendix that was-----

Chairman: It's on the screen there.

Senator Michael D'Arcy: Its on the screen: "The dept of finance is worried that people will call the government's bluff". So, he was stating that the Department of Finance were

concerned that potentially the markets, would consider this a bluff. The NTMA, in evidence, were concerned that the markets would interpret it in a similar way and as we know, they were excluded from the conversation. Similar question for you, Ms Harney. Was it a bluff?

Ms Mary Harney: No, absolutely not. I did say in my statement that I excluded myself for the reasons I gave, from the actual decision, although I supported it when the Minister for Finance made contact with me on Monday night, my memory is it was around nine, 9.30 in the evening. I believe we had no alternative, quite honestly. And I think if we had excluded some banks, I think it would have led to enormous controversy and it would have led to legal action and it would have been very hard to justify because Anglo was systemic. It was certainly no bluff. I will acknowledge that the information on which the decision was made was very limited and on that night the view was that we had a liquidity problem, not a solvency problem.

Senator Michael D’Arcy: And in the conversation between, I assume Minister Lenihan, in contacting the other members of Cabinet, did he state that it was a liquidity crisis, a liquidity problem, and not a solvency, to Ministers?

Ms Mary Harney: My memory of the discussion at the end of the Cabinet meeting on the 28th and around that time was that banks were running out of money, that they were solvent but that they were running out of money. But when Minister Lenihan contacted me that evening, I think his conversation went something like “There’s a very serious situation emerging, be on hold for a call later, that we’re having a meeting in the Department of the Taoiseach”, that was my memory. But I was aware that a serious situation was emerging, it wasn’t a surprise to me.

Senator Michael D’Arcy: Okay. Can I ask, Ms Harney please, on 30 September, Morgan Kelly was on “Prime Time”, he was interviewed with Brendan Keenan and he stated - this is a general run of what he stated - that the Irish liquidity crisis was as a result of the markets’ understanding-----

Chairman: Interference there folks. Sorry about that now, Senator, but there’s somebody near you with a phone.

Senator Michael D’Arcy: That the markets’ understanding was the standard of the Irish loan book. The markets understood the loan book, they understood that liquidity crisis was worse in Ireland than anywhere else and there was that reason why there was no funds available. Did you hear Morgan Kelly, Ms Harney?

Ms Mary Harney: I don’t ... the night of the 30th, I don’t believe I did. But-----

Senator Michael D’Arcy: Were you aware of his concerns?

Ms Mary Harney: I was aware of statements made by Morgan Kelly over the years, but can I say the information available to the Government, on which the Government must base its decisions, the official information, did not convey that view.

Senator Michael D’Arcy: He was right and they were wrong?

Ms Mary Harney: As it happens, yes.

Senator Michael D’Arcy: Could you expand on “As it happens”, please?

Ms Mary Harney: Well, as I said earlier, the-----

Senator Michael D’Arcy: I mean, it’s a rather-----

Ms Mary Harney: Sorry?

Senator Michael D’Arcy: -----glib answer to a €64 billion gross liability.

Chairman: Sorry, now, let the witness decide how they will answer, Senator, if you don’t mind, and I’ll let the judgment be made later. Just ask the question please, without statement.

Senator Michael D’Arcy: Okay.

Ms Mary Harney: Sorry, Senator, the question?

Senator Michael D’Arcy: The question was, you said, “As it happens”. I asked you, he was right and all the Government advice was wrong, and you said “As it happens”. Could you expand upon that please?

Ms Mary Harney: Well, well ... the night, the information on which the guarantee was based clearly did not indicate there was a solvency issue. And I think other witnesses that have give evidence here before the committee who were present on the night have confirmed that. That emerged subsequently. And as the, you know, the loans got transferred to NAMA and the haircut was substantially bigger than anyone had anticipated, that is the reality of what happened, Senator, and I think many of the comments I made earlier in relation to mistakes made - perhaps we could have done things differently to have better information, to have minimised the burden on the taxpayers, to have mitigated some of the risks. But we did not have that information. And I have to say that in my experience in government, between 1997 and January 2011, my colleagues always acted in the national interest. When serious problems were brought to attention, they were dealt with, notwithstanding the consequence, political or otherwise. That has been my experience.

Senator Michael D’Arcy: Can I advance the conversation-----

Chairman: Last question.

Senator Michael D’Arcy: -----Chairman, please? In terms of NAMA - you brought up NAMA, Ms Harney, the €42 billion discount - Minister Lenihan was at pains to stress that the discounted money would still go ... the assets and liabilities would transfer together and that the discount ... that the State would get back the discount because the individual who borrowed the money would still owe the money. How much of the €42 billion are you aware of the State will receive back of the discounted money, the haircut?

Ms Mary Harney: I don’t have that figure, Senator.

Chairman: Okay. Senator Sean Barrett. Senator.

Senator Sean D. Barrett: Thank you, Chairman, and welcome to our two former Tánaistes. Could I ask Mr. Gormley, on page ... the bottom of page 12 and the top of page 13 where you say, on the Department of Finance, that you encountered “stern resistance ... from the Department to our suggestion that [a] ... review of the economic crisis should include a review of the Departments own performance in the years leading up to 2008.” What was the nature of the stern resistance, please?

Mr. John Gormley: They didn’t want to be part of that. They didn’t see the need for it.

And, in fact, when it subsequently happened, I was disappointed that someone who sat at the Cabinet table like myself ... I wasn't interviewed for that particular report.

Senator Sean D. Barrett: Would you have put more things into the Wright report?

Mr. John Gormley: Well, the thing that I would have put in, Deputy ... Senator, rather, was the thing that disappointed me about the Department. And let me say that many of the officials in the Department did Trojan work. They worked around the clock, including Mr. Cardiff, who was unfairly maligned, in my view. But the Department calls the shots and they often, I suppose, had a practice which was like, you know, "Do as I say, not as I do". And in terms of the way that they approached Cabinet meetings, I felt that they would produce memos, as I said, at the last minute, not giving us enough time to scrutinise those memos, not having done the necessary homework themselves, whereas I was running a Department, which was a huge Department, and if I had to put something through Cabinet, every single line had to be accounted for. And that's the ... that's the problem that I encountered.

Senator Sean D. Barrett: Have you anything further on the push-back against your attempt to analyse the performance of that Department up to 2008?

Mr. John Gormley: No, it was just ... we ... and I know, as I said, Eamon Ryan had assumed responsibility for dealing with those economic matters and he was the person dealing directly with them but he reported back a number of times to us that they didn't want to play ball on that issue.

Senator Sean D. Barrett: On page 8, you have that "The level of emergency liquidity coming from the European Central Bank had reached [...] €130 million and market confidence in Ireland was falling". Was that number monitored regularly by the Cabinet?

Mr. John Gormley: I think I corrected that, Deputy ... or, Senator, rather.

Senator Sean D. Barrett: Yes.

Mr. John Gormley: I said €130 billion. I edited my-----

Senator Sean D. Barrett: Yes, I'd like the smaller number as well, yes, yes. But was that number - in billions - was that monitored by the Cabinet?

Mr. John Gormley: Yes, there were a number of people-----

Senator Sean D. Barrett: Yes.

Mr. John Gormley: What happened during the crisis ... that it was ... Minister Lenihan and Minister Ryan, my colleague, developed a very good working relationship and their advisers developed a very good working relationship, so the two parties in government were represented by those two people and they met regularly. They developed, I think, a very good rapport and worked on those issues and, in turn, Eamon Ryan would then ... would then come back and report to us.

Senator Sean D. Barrett: So the alarm bells should have gone off, if we knew that was ... it didn't just arise, €130 billion-----

Mr. John Gormley: Well-----

Senator Sean D. Barrett: -----on that day.

Mr. John Gormley: Well, you know, the ... as Mary Harney has explained, it's hard to ... it's very hard to exaggerate the way that things accelerated. And we were left dealing with that crisis and we had to deal with it as quickly as possible and when it came to making those decisions, Minister Lenihan and Minister Ryan came before us and put forward the options, as I said.

Senator Sean D. Barrett: Could I turn to Ms Harney briefly? And we are time constrained. Wouldn't the fact that the NTMA began to get wary of Irish banks before any other body in the public sector ... was that not a case for a greenfield site ... your original proposal, a greenfield organisation, that the one that was outside the system picked up on its antennae that Irish banks were in trouble long before the rest of the governmental structure?

Ms Mary Harney: Well, we were ... Senator, we were discussing this issue between '99 and 2001. I'm not aware the NTMA had issues at that point with the banks.

Senator Sean D. Barrett: Well, it is an example of an organisation that got out of the Department of Finance and went off on its own way rather than-----

Ms Mary Harney: Oh, sorry, the example of establishing the NTMA? Yes, but, as I think I explained earlier, what concerned me was the manner in which we regulated rather than who actually did the regulation.

Senator Sean D. Barrett: Yes. Mr. Gormley-----

Ms Mary Harney: And it was put forward very strongly, the views of the ECB which had to be taken into account. Clearly, we were part of a monetary union. And then a role had to be given to the Governor. And I think we were in discussions between ourselves and the Department of Finance for nearly two years before the memo was brought to Government and, to be honest, I was getting quite frustrated. And I didn't see the structure as the big issue. I felt ... and, even in hindsight, I'm not certain we would have got agreement to have a completely green field situation, I think we would have been taking a lot of people from the Central Bank. The difference with NTMA, really, was it was a completely new and expanded role when it was established, albeit with some people from the Department of Finance.

Senator Sean D. Barrett: But it did have better economic intelligence in this matter?

Ms Mary Harney: Yes, but not at that point, later on. Yes, I agree.

Senator Sean D. Barrett: Now, the €100,000. Was there a discussion on that, the €100,000 deposits protection when that was introduced in mid-September? I think, 19 September 2008. Was that discussed? It's probably a question to you both. Was that discussed at the Cabinet?

Ms Mary Harney: I can't recall what the form - I think it was a Saturday morning-----

Senator Sean D. Barrett: I think you're right.

Ms Mary Harney: It was ... this is my memory now, sorry. I can check. My memory is it was a call from the Minister on Saturday morning or maybe late Friday night. It hadn't been changed, I think, since 1995 and there was a view that given what was happening, we needed to increase it to €100,000. It was felt on that occasion that that might have been adequate. Clearly, subsequently it proved not to be.

Mr. John Gormley: I don't have a recollection of a phone call in relation to that matter, Senator.

Senator Sean D. Barrett: Thanks, Chairman, and thank you very much both.

Chairman: Thank you very much. Deputy Pearse Doherty.

Deputy Pearse Doherty: Go raibh maith agat, a Cathaoirleach, agus fáilte roimh an beirt seo chuig an coiste. Ms. Harney, can I start with yourself? In your witness statement, you state that there was a short discussion on the liquidity issues in the banks at the Cabinet meeting on Sunday, 28 September 2008 but the main focus of the meeting was to deal with the decisions required for the imminent budget. I know you've mentioned this, but can you just discuss the liquidity issues conveyed to you at that time? And did you think these discussions would lead to the Government announcement of a Government guarantee for the banks within 48 hours?

Ms Mary Harney: The answer to the last question is "No". My memory is that we spent the whole ... I think it was morning and afternoon, I can't quite remember the time of the day, it was a Sunday. We were discussing the Estimates. That was always a long meeting and always a difficult meeting because there was friction and tension between, say, normally the Finance Ministry and other line Ministers. So there was a long discussion. And my memory is that at the end of that meeting that the Minister for Finance said there's a serious situation emerging in the banks. I don't think the word "guarantee" or anything like that was mentioned. That's the best of my recollection.

Deputy Pearse Doherty: And was there a discussion or did he just mention it?

Ms Mary Harney: No, it was ... my memory is that it was a brief comment from him at the end of the meeting, which would be the norm. The norm at a Cabinet meeting is if a line Minister has some new issue that mightn't wait until Tuesday, which was the next Cabinet meeting, or something new was emerging, the tendency would be to brief your Cabinet colleagues. There wouldn't be papers, it would just be by way of a short statement.

Deputy Pearse Doherty: A short statement.

Ms Mary Harney: And that is my memory. I just want to say since Mr. Gormley can't remember that, I want to be sure he actually said it at the meeting and he didn't privately say it to me as he sat beside me but my memory is it was said at the meeting.

Deputy Pearse Doherty: But no big Cabinet discussion in relation to-----

Ms Mary Harney: No. No.

Deputy Pearse Doherty: Okay, so just raising an issue of concern in the future.

Ms Mary Harney: Yes.

Deputy Pearse Doherty: Mr. Gormley, you mentioned in terms of the theories that are out there, you know, and the three parts, which the third part were that the Green Party was ignorant of everything that was going on. And you say that you have no evidence to suggest that that was the case. Can I ask you: did you, as leader of the Green Party ... or when did you become aware that there was legislation drafted to nationalise institutions? Were you aware of it, that it had started in the spring of 2008?

Mr. John Gormley: No, I think I've already said that the evidence of Mr. Cardiff in that regard surprised me. I did not know.

Deputy Pearse Doherty: Okay, were you aware that legislation-----

Mr. John Gormley: Nor, should I say ... nor did, as far as I know, other members of the Cabinet.

Deputy Pearse Doherty: Okay, yes, that's fair enough. And were you aware that legislation was drafted to guarantee the banks?

Mr. John Gormley: No, I hadn't ... I wasn't aware of that.

Deputy Pearse Doherty: And outside of speaking to a journalist, in the form of Mr. McWilliams, were you aware that the Minister had been engaging with the Central Bank in relation to a guarantee, in relation to nationalising institutions prior to the phone call that you got?

Mr. John Gormley: No, I was not aware that Minister Lenihan was engaging with the Central Bank on this issue. I think I've said to you that, at that stage, Minister Lenihan was, as I said, keeping his cards close to his chest. But we did have that discussion at the pre-Cabinet meeting on the 28th, where I raised my concerns but the actual ... my knowledge of the drafting of the legislation that you referred to was not there, I just didn't ... I didn't know about it.

Deputy Pearse Doherty: You're referred to in ... Mr. McWilliams's e-mail as the "king-maker" of Government, but can I ask you: what is the evidence that you actually knew, or your party knew, what was going on in relation to the banking crisis, the nationalisation, the guarantee, all of the twists and turns that we've been investigating for the last number of months?

Mr. John Gormley: Well, the evidence is - and I've tried to be as clear with you as I can - that we had discussions with the Minister, and I said, I think, in my official statement, that these were not sit down conversations. I would have preferred if we had that, but we didn't. Minister Lenihan didn't have time, but we did discuss the options. He did say to me that he had been speaking to David McWilliams. I subsequently spoke to David McWilliams. He then sent me those particular e-mails. I think you may have put a question to Mr. McWilliams whether he discussed the issue with me. The fact is that-----

Deputy Pearse Doherty: I understand ... look, I understand that and you've given that evidence. Many people have been speaking to David McWilliams. Most people aren't senior members of Government during the financial crisis. But can I ask you in relation to the evidence that you've given earlier on, that you became aware that Anglo Irish Bank was insolvent some days before the nationalisation of Anglo Irish Bank, and, Ms. Harney, you've given the same evidence. How does that relayed to you in relation to the insolvency of the institution at that time?

Mr. John Gormley: It was relayed to me, as I said, by Eamon Ryan, my colleague, who was dealing with the issue and he told us subsequently that he'd had a meeting. I've already read into the record ... the Chairman asked me about this and I explained how that came about.

Deputy Pearse Doherty: Okay, and Ms. Harney?

Ms Mary Harney: My memory is that Minister Lenihan called in to my office in Leinster House, on the Ministers' corridor, and he told me about the emergency situation with Anglo Irish Bank. I don't know how close that was to the actual date; my memory is it was probably the day before or something, that it was very close to when we brought the legislation.

Deputy Pearse Doherty: And did he tell you that he believed that the bank was insolvent

at that point in time? How do you-----

Ms Mary Harney: Well, there were a number of issues around Anglo that he discussed with me that I'm not certain I should relay here, but he was deeply concerned about it, yes.

Deputy Pearse Doherty: Yes. And the key question I have is ... you've mentioned that you became aware of the insolvency of the institution and that's an important point so how-----

Ms Mary Harney: Well, I'm conscious I'm under oath, Deputy, and I want to be fair. So when I precisely became conscious that Anglo was no longer solvent, I can't be certain of that.

Deputy Pearse Doherty: No, I'm not looking for the time, as such; I'm asking in terms of did somebody tell you that they believed that Anglo was not solvent anymore?

Ms Mary Harney: My discussions would have been with the Minister for Finance in that ... around that period of time but when it was, I'm not certain.

Deputy Pearse Doherty: Okay, and the evidence that we've had heretofore in the committee from John Hurley, for example, from the Taoiseach, Brian Cowen, is that the issue of nationalisation of Anglo Irish Bank because the Government had decided, and notified, indeed, the ECB on 8 January, that they were going to inject capital into the bank, and, on 15 January, they decided to nationalise. But the evidence heretofore is not about insolvency, that the bank was not insolvent, but it was because of outflow of deposits and some corporate governance issues.

Chairman: We're moving into kind of area here that, that I don't want to be making recalls of people later on to clarify and I'm just assisting here.

Deputy Pearse Doherty: Well, I would like to test previous evidence with the witnesses-----

Chairman: The test is ... I don't want to be if it ... no, I'm just insisting there. I don't want to be ... and if you'll just assist me a second because as part of the conclusion of this inquiry they ... we would maybe need to get further clarification. So I'll just allow you a minute or two here because ... rather than us writing to you later on and all the rest of it, okay? So, Deputy.

Deputy Pearse Doherty: Yes, like, for example, the Chairperson asked Mr. Hurley what happened between 8 January 2009, when the Government had notified the ECB to recapitalise Anglo, and 15 January 2009, when they made the announcement to nationalise it. And the summary of what was said at that time was it was consequences that ... in terms of ... misgivings about putting capital into Anglo, particularly in relation to some of the issues which emerged, which was corporate governance issues. This was relayed as the same thing by-----

Ms Mary Harney: Yes.

Deputy Pearse Doherty: -----Mr. Cowen. But at no stage have we heard that Cabinet members or Government believed - to my knowledge - believed that Anglo was insolvent at that time, which means that there was significant loan losses in the institution. So I'm just asking ... with that in mind.

Ms Mary Harney: Well, I ... clearly, Deputy, it'd be important to me to be fair to other witnesses that may have had more knowledge of this than I have, but my memory of discussing the issues around Anglo with the Minister for Finance ... corporate governance issues featured very highly, yes. The outflow of money featured very highly, yes. But if you're asking me now to say when precisely I became aware that the institution was insolvent, and given the evidence of

other witnesses, I need to be careful about that to be fair to everybody because ... I have found with all of this evidence that we're going back eight years, which in many ways is not a long time but, believe it or not, when you've been in government for quite a long time, it is a long time to try and remember the precise chronology of events.

Deputy Pearse Doherty: But, Ms Harney, can I ... maybe to be helpful, the minute the Government nationalised Anglo Irish Bank, it no longer became insolvent-----

Ms Mary Harney: Of course.

Deputy Pearse Doherty: -----because it was now a nationalised entity.

Ms Mary Harney: Of course.

Deputy Pearse Doherty: So, are you still of the view that you had a belief at that time - whatever time it was - that at a point in time that you were informed that Anglo Irish Bank was insolvent?

Ms Mary Harney: Yes.

Deputy Pearse Doherty: Okay. And, Mr. Gormley?

Mr. John Gormley: Yes, and I can't give you an exact time but I do know that concerns were raised by my colleague, Eamon Ryan. I do know that our finance spokesperson, Dan Boyle, similarly raised concerns, so much so that I think Alan Dukes was very critical of our finance person at that stage because Dan Boyle was saying that, I think - and, again, I'm aware that ... I'm trying to be as accurate as I possibly can - I think if you check the records from that time, particularly the newspaper coverage, that Dan Boyle had made a statement that it has to be nationalised because of ... as far as he was concerned, there was ... there was a real problem.

Chairman: Thank you, Deputy. Senator Susan O'Keeffe.

Senator Susan O'Keeffe: Thanks, Chair. Mr. Gormley, were you aware at the time when Morgan Kelly produced his article in *The Irish Times* at the end of 2006 ... did that make an impact on you, do you recall, or, again, when he published in the ESRI bulletin in summer 2007? Do you remember?

Mr. John Gormley: I don't have a clear recollection of it at the time, 2006 is going back even further in time. I would say that he was correct in his analysis. He ... we were talking earlier on about contrarian views, he ... he called it right, as did David McWilliams.

Senator Susan O'Keeffe: Do you recall any conversation - after you became a Minister - of the content of that Morgan Kelly ... of his suppositions or his proposals? Did it arise at all anywhere in conversations?

Mr. John Gormley: No, but, again, I do have a recollection of the Department for Finance not being too keen on Morgan Kelly, to put it like that. I ... that's just a recollection I have but that's ... that's not providing you with hard evidence, but that's just a memory I have, yes.

Senator Susan O'Keeffe: Ms Harney, on the night of 29 September when you took the call from the Minister for Finance, did you effectively recuse yourself from any decision by saying that it wouldn't be appropriate for you to participate in whatever decision, and I'm quoting, "was arrived at that affected AIB or Bank of Ireland" because you and your husband jointly

owned shares in those institutions?

Ms Mary Harney: That's correct, yes. But I did go on to say that I would support whatever decision ... I ... I trusted both the Taoiseach and the Minister for Finance to make the right decision.

Senator Susan O'Keeffe: Would it be something that happened a lot or rarely that someone might be unable to be part of the making of a decision because of a conflict of interest?

Ms Mary Harney: In my memory it happened maybe once or twice where somebody would have excluded themselves. Typically, I remember it happening on one occasion when somebody was being appointed to the Judiciary and there was a connected person, and they excluded themselves ... those kind of occasions, very rare, because any conflicts would be ... told to the Secretary General to the Government and so on. It didn't happen that often, in my experience.

Senator Susan O'Keeffe: Mr. Gormley, you talk on page 3 about snatched conversations with Mr. Lenihan after the Lehman's collapse. You also talk about the phone call conversation, the e-mail with David McWilliams. You go on to talk about that short and rushed meeting you had with Mr. Cowen and Mr. Lenihan on the Sunday before. You say then about your decision not to leave your house and go into Government Buildings, and finally on page 4 you talk about "the responsibility of dealing with these matters ... was then [assigned to] my colleague, [Mr.] Eamon Ryan". It could, if you look at those things, it could look like your contact with this whole affair in relation to the crisis and the management of it was quite brief, if you look at it in that way. And I'm wondering how it is that, in much of your statement, in fact, is given over to the notes from your colleague, Mr. Ryan. Now, you were the leader of the Green Party, were a member of Cabinet, and yet----

Chairman: That's it.

Senator Susan O'Keeffe: I'm trying to find out why your interaction with this is so small.

Mr. John Gormley: Well, you could look at it another way, and you could say that, in relation to the guarantee issue, I, notwithstanding the fact that I didn't know that legislation was being drafted ... this issue has been raised by your colleague, Deputy Doherty ... notwithstanding that, I probably had more knowledge of the issue than other members of the Cabinet. That's in relation to the guarantee. Just to move on now to the question of what happened subsequently: we were in a crisis. Things were moving very, very quickly. I was not just the leader of the Green Party, I was also in charge of a huge Department, and I'm sure if you talk to your colleague, Minister Kelly, he will tell you that it's a big Department. It was even bigger then. I was looking after more issues and you could ... you know, from libraries, fire brigades, the whole thing. I was also the leader of a party, of a small party, that was in the worst crisis you can imagine. I had to deal with the party members and that was my brief because, you have to remember, that if the Green Party decided to pull out of Government, that was the end of the Government. And so it was my duty ... and we divided up the roles, Eamon Ryan's Department was a much smaller Department and he had more ... frankly, he had more time on his hands. And so, therefore, it made sense under the circumstances to operate in this way.

Senator Susan O'Keeffe: Okay. I'm just thinking about the public's idea of Cabinet responsibility and collective Cabinet decision. It seems from what you've both said, in fact, that neither of you knew anything of the build-up, anything about the legislation, anything about the

planning, anything about the crisis, anything about all the documents that ... now, in fairness, we've seen a lot of documents. But it seems to me that both of you arrived almost at that night with very little knowledge. Is that ... is that a fair assessment of what happened? And in that case, how many more of your Cabinet colleagues were also in that boat?

Mr. John Gormley: Do you want to answer that first?

Ms Mary Harney: Well, it was, if I could say, an emergency situation and it was happening very quickly.

Senator Susan O'Keeffe: But the crisis had been building for a long time.

Ms Mary Harney: Well, I think, Senator, it's reasonable that the Department of Finance had contingency plans, given what was happening in the global economy. It's also reasonable that they would not have made the wider Government aware of that for a whole host of reasons. And that would not be unusual. Line Ministers would often operate in an environment where you're putting contingency proposals in place in the event of something awful happening and you wouldn't necessarily brief the rest of the Cabinet. You would normally brief the Taoiseach, and if it had an implication for another line Minister, so that is not unusual. I think, to be fair to the Minister for Finance, he was extremely open in his dealings with me. I think he kept me as informed, as well informed, and it was right that if his Department, in consultation with the Attorney General, were putting measures in place in the event of something awful happening ... it's better that that was happening than the alternative of not doing that.

Senator Susan O'Keeffe: I have one clarification.

Chairman: A clarification now, not a question.

Ms Mary Harney: But can I also say, Senator, that every single decision made by the Government would have been brought to the Government in an appropriate memorandum and on many occasions circulated well in advance for comment from different Ministers.

Senator Susan O'Keeffe: The clarification is that in the fourth quarter of 2008, Mr. Gormley, that you say that the contracts for difference, you were notified then, at that point, in the fourth quarter of 2008. I just want to ask, is that correct, and is it correct for you also, Ms Harney? Page 5 of your own statement.

Mr. John Gormley: Page 5.

Senator Susan O'Keeffe: You say you "were informed by Minister Brian Lenihan of the extent of losses that Sean Quinn had accumulated through the purchase of Anglo share options." Is it correct that you found out at that point?

Mr. John Gormley: That's correct. Again, and I'm not trying to be evasive in any way, you suggested that a lot of the statement was devoted to Eamon Ryan's testimony. The reason for that is, we wanted to be as helpful as possible to this committee.

Chairman: I just need to come back. I know you're trying to be helpful but just clarify the point there.

Mr. John Gormley: Yes.

Senator Susan O'Keeffe: And Ms Harney? Do you remember?

Ms Mary Harney: To be honest with you, I don't know when I became aware of that. I'm trying to find the reference in Mr. Gormley's-----

Senator Susan O'Keeffe: It's the top of page 5.

Ms Mary Harney: Sorry.

Senator Susan O'Keeffe: I beg your pardon.

Chairman: It's on the screen in front of you, if that helps.

Ms Mary Harney: To be honest, I wouldn't be able to recall at this distance exactly when I became aware of that but I certainly was briefed about it. Yes.

Senator Susan O'Keeffe: Do you remember if it was before or after the night of the guarantee?

Ms Mary Harney: Oh gosh, I think it may have been after but I'm not certain. I can't be certain about that, honestly.

Chairman: Thank you. Deputy Higgins.

Senator Susan O'Keeffe: Thank you.

Deputy Joe Higgins: Mr. Gormley, around budget time, there is a practice of lobbying Ministers and the Government by organisations representing developers and builders. As Minister for the Environment, Heritage and Local Government, were you lobbied in your time? Did you influence the Minister for Finance in any aspects of the budgets that were in your time? If so, can you outline any such changes and could you say if any such changes was as a result of lobbying to your Department?

Mr. John Gormley: Well, Deputy, I said in my opening remarks that I felt that the record-keeping sometimes left something to be desired. I was aware on occasion when I would go into the Department, I would see people ... representatives of the construction industry in the Department. Nobody ever lobbied me personally. I ... it was common practice at the time that the Minister for the Environment would be invited to the CFI annual dinner. I went, I think, on the first occasion and gave a speech which was probably not to their liking, when I talked about the over-zoning and all the rest. So, I was never personally lobbied but I have no doubt that they were in the corridors of power. Very often, it made more sense for lobbyists to go directly to the Department of Finance.

Deputy Joe Higgins: Okay.

Mr. John Gormley: And I think that's what happened in many ... many occasions, you know.

Deputy Joe Higgins: Mr. Gormley, you say in page 1 of your written statement, "It's a fact that two thirds of what is known euphemistically as the 'fiscal adjustment', which led to the recovery, was made by the Green Party in government." You say that "Green Party TDs and Senators voted for these cut backs and tax increases, convinced that this was the correct course of action, while also knowing that it would lead inevitably to electoral annihilation" and, finally, you said "I'm proud of the dignified way that the Greens conducted themselves during this time of adversity." Could I put to you, Mr. Gormley, a contrary view that in the general election of

2007, the harsh austerity measures were unthinkable and that no Government really would have a democratic mandate to impose such measures. And in that context, Mr. Gormley, can I ask you was the worst day in government better than the best day in opposition? Was that a siren call or was it sound advice from a partner in government?

Mr. John Gormley: I'd a funny feeling that was going to come up. And I can say, I remember Mary Harney saying that to me and I was absolutely mortified when it appeared in the newspaper. It was ... John Downey, the deputy press secretary, came to me and apologised to me that it appeared in the newspaper and then I subsequently apologised to Minister Harney. But, it actually isn't true. I can tell you that now. Some of the worst days we've ever had was when we were in government and it was unimaginable and just when you thought it couldn't get any worse, it did. So-----

Deputy Joe Higgins: And on the democratic mandate, Mr. Gormley?

Mr. John Gormley: The democratic mandate, nobody could have foreseen the collapse and, you know, this was an unprecedented situation. We were ... we were there ... we were forced to take the most unpalatable decisions but we did so trying our best to make these budgets as progressive as possible. And we had a backroom team working on that and I'm proud to say that each of those budgets was progressive, that they actually did hit the wealthier people a lot more than poorer people. And, Deputy, can I say, you know, I think I've had a conversation with you before about this that, you know, in an ideal world, if we could clone Joe Higgins and create 90 Joe Higgins and you had a majority in government, I'm telling you now that your room for manoeuvre in government would be limited in a crisis like this. You would have to make terrible decisions like Syriza in Greece. It's something you don't want to do, but you ... it's forced on you and, you know, I wouldn't wish it on my worst enemy, but that's the situation that we were in. We had to take those decisions and I think they were the right decisions.

Deputy Joe Higgins: Well, I am afraid I am not in a space where I can debate that with you just now, Mr. Gormley, but I would not act in the way you suggest. Ms Harney, you say in your statement, "I am proud of the economic and social achievements over the period [in government].", and in the Oireachtas core documents, Vol. 2, it says, I'll quote very briefly, the Progressive Democrats 2007 election manifesto claimed that, in government, the Progressive Democrats will "Continue our successful policy-approach of significantly increasing housing supply to reduce the cost burden on homebuyers". Ms Harney, evidence on this inquiry asserts that between 1996 and 2006, coinciding largely with your time in government, saw the price of an ordinary home increase each year over those ten years by the equivalent of the average industrial wage - each year, the equivalent of the average industrial wage. How can you describe that as a successful policy?

Ms Mary Harney: Well, Deputy, I think it's fair to say living standards were raised substantially during that period. The take home pay of lower income groups and middle income groups were substantially increased. We ... even in the worst day in 2007, 2008, there were 1.7 million people in work in this economy. In the late '80s, there were 900,000 people at work. So we generated huge employment, huge opportunity, reduced both unemployment and long-term unemployment, in particular. And, yes, there were issues around the property. It was among the reasons why in that election we advocated a change in stamp duty. Two people in Dublin selling an apartment, a young couple, if they were both single with an apartment worth €300,000 each, which wasn't huge in Dublin, had to pay the equivalent of more than the average industrial wage by way of stamp duty and we advocated that too. The view taken, Deputy, was a greater supply might reduce the cost. It was the shortage of housing in particular parts of

Dublin, mainly to do in which the manner in which we develop housing in this city-----

Deputy Joe Higgins: Finally-----

Ms Mary Harney: -----that led to the huge rise in prices.

Deputy Joe Higgins: Yes, finally, Ms Harney, in evidence to this inquiry, Mr. McWilliams ... referring to a “Prime Time” October 2003, where he said:

The Irish housing market is a scam. It is an enormous financial swindle that could potentially confine an entire generation of young Irish people to years of bad debt. Far from being a reflection of economic vitality and fundamental demand the housing bubble is, in the main, a vacuous financial confidence trick that has been foisted on us by an alliance of banks and [...] landowners.

Then he referred to the price of an average home close to ten times the average wage. Do you agree with his analysis now?

Ms Mary Harney: Well, Mr. McWilliams wasn't in touch with me in the same way that he was in touch with Mr. Gormley and I hadn't recognised until this meeting the extent of that engagement. I agree with some of Mr. McWilliams' analysis - not all of it but I agree with some of it. But Morgan Kelly, when he published in 2006, made the point that at that stage it was too late to stop the property bubble. So different people put forward contrarian views but the view that the Government went with, Deputy - and this is where I said earlier that we should have been more questioning - we went with the consensus that there would be a soft landing in the property market and we based our election manifestos in that election on a ... and most parties did on the basis of a 4.5%, 5% growth figure. Clearly, neither of those situations turned out to be the case.

Chairman: Okay, thank you very much. We'll now move to wrapping things up. Deputy Phelan, three minutes.

Deputy John Paul Phelan: Thank you, Chairman. Briefly, for both of you, was there a discussion at Cabinet prior to the guarantee of the figures from the Department of Finance that showed that the country had gone officially into recession which became known, I think, to the Department from 25 or 24 September? Was that discussed at that Sunday meeting or at any other meeting?

Mr. John Gormley: Well, my memory of that it was discussed even before then because I do recall getting a-----

Deputy John Paul Phelan: Okay.

Mr. John Gormley: -----phone call from Minister Lenihan telling me that the budget will have to be brought forward, that things are very serious and we are going to have to act on it.

Deputy John Paul Phelan: That's fair enough. Can I ask again, Mr. Gormley, maybe outside of the discussions with Mr. Cowen, Mr. Lenihan and the correspondence and phone calls with Mr. McWilliams, did you seek the advice of others at the time?

Mr. John Gormley: At the time? No, I don't recollect discussing the issue with other people.

Deputy John Paul Phelan: Okay. For both of you, were you aware prior to the contribution of Mr. Cardiff to the inquiry that he expressed the view here in his statement and in his evidence that Minister Lenihan did not have full and frank discussions on matters concerning the banks at Cabinet because he was afraid that such matters would be leaked? Were you aware of that at the time or when did you subsequently become aware?

Mr. John Gormley: I knew that was a concern of Minister Lenihan, and I knew that was the reason why he had to be circumspect, because if it did leak it was a serious ... it would have been a serious matter.

Deputy John Paul Phelan: Okay.

Mr. John Gormley: And so I can understand. But, you know, I am of the belief that he did not know that there was to be a crisis meeting with bankers on the 29th.

Deputy John Paul Phelan: Ms Harney?

Ms Mary Harney: I always found Minister Lenihan to be very frank and open with me in any engagement I had with him, and generally very revealing. He did worry about leaks, obviously, for the very obvious reasons that if something inappropriate is leaked it can be self-fulfilling. I wasn't aware that Mr. Cardiff made that point to the committee, but it's probably true. Very often a line Minister would inform people that aren't of the same party in a way that they mightn't inform their colleagues, and that's not a reflection on their colleagues, it's just they want to keep things as tight as possible. I think that was the perspective he had.

Deputy John Paul Phelan: Okay. Finally, Mr. Gormley, were you aware that the NTMA, on the night of the guarantee and before it, held a view that a blanket guarantee wasn't the optimum solution in their view? And do you believe that as the effective funders of the State that they should have been involved and in the room directly in those discussions on the night concerning the guarantee?

Mr. John Gormley: No, I did not know that. Nor did I have the information relating to the outside advice. I think Merrill Lynch, etc. I only became aware of that subsequently.

Deputy John Paul Phelan: In light of that and, I mean, I don't want to harp on, I raised it earlier with you, but you were in Sandymount on the night. You weren't in Ballydehob, and you weren't in-----

Mr. John Gormley: Well, I wasn't actually, I was in Ringsend.

Deputy John Paul Phelan: Ringsend?

Mr. John Gormley: Okay.

Deputy John Paul Phelan: Possibly even closer than Sandymount, or I'm not sure, maybe Deputy Murphy might know the geography better. But in light of that fact, I mean why did you not when you were presented with the opportunity, we know that the NTMA were in the room next door to the meeting, they weren't involved, perhaps even your presence might have led to them being included in the discussion. Why did you not take that opportunity to be present?

Mr. John Gormley: Well, first of all, I didn't know that the NTMA were there. I didn't know about the advice that you have just spoken about. And, frankly, Deputy, I don't think my presence there would have changed things one iota. I mean, the presentation again is one of

“the night of the guarantee”. The fact is that this had to go through a process, and the AG was very clear on this, that this was legislation that had to be agreed. So it was open to people the very next day, if they had concerns, they could have raised concerns there. Likewise, as the legislation was progressing. But the fact is that we didn’t have those concerns and I didn’t see, you know, it as a ... it wasn’t the priority for me to go in at that stage because I had, as far as I was concerned, dealt with the issue in my own mind. And I was very clear at that stage that this was the right decision, and I still hold the view that, under the circumstances, it was the least worst decision.

Deputy John Paul Phelan: Thank you.

Chairman: Thank you very much. Deputy McGrath.

Deputy Michael McGrath: Yes, thank you, Chair. Mr. Gormley, in your witness statement you mention a report from 2010 from NUI Maynooth in relation to ghost estates. What steps did you and the Green Party take in the 2007 to 2010 period to improve the planning system in a way that reduced the number of ghost estates that might be abandoned?

Mr. John Gormley: Well, there was quite a number of things that we did, Chairman. I can go ... first of all, there was the planning legislation that I introduced, which was to ensure that the way councillors approached rezoning was in a completely different way. that it wouldn’t give rise to these ghost estates in the future. The fact is that if you look at the amount of land that was rezoned at that stage ... at the height of the boom, I think it was 44,000 ha, when, you know, that was 32,000 ha more than was needed. And so, in the planning legislation that I introduced, we said that each council had to have a core strategy, that they had to have evidence-based zoning, that they had to get experts in, and that it just couldn’t be done in the haphazard way that it had been done up until then. I also initiated a number of planning inquiries because it had come to my attention that there was corruption taking place - a number of complaints from various members of the public. Unfortunately, those inquiries were shut down. The final thing that we did, and it’s important ... I really do believe it’s important because you can go right back to the Kenny report, back in the ‘70s, which recommended a windfall tax to deal with this sort of corrupt over-zoning that we were witnessing - that’s an 80% windfall tax. And then we went through a tribunal dealing with the corruption, and that tribunal recommended a windfall tax. We introduced it, and it was a good measure. It should have been retained and, unfortunately, it was ditched as well, and I find that very regrettable.

Deputy Michael McGrath: Okay. I’d like to just go back to the issue raised by Deputy Doherty, and, especially with you, Mr. Gormley, about the solvency of Anglo because it is an important point, and there was a PwC report, Project Atlas. There was one in September ‘08, one in November ‘08, and one in December ‘08, and then a summary of it was prepared for the regulator and the Department in February ‘09. It didn’t raise any solvency issues; in fact, they concluded that even under the most stressed scenario, in terms of the assumptions, that the minimum capital requirements would be maintained by Anglo-----

Chairman: There’s interference coming there by you, Deputy McGrath, so I’ll just give you a bit of time in that, but, I ... just, it’s just-----

Deputy Michael McGrath: So, I’m ... and, I think, to my recollection, this is the first evidence from somebody that there was an awareness in government level of the solvency issues in January ‘09, so I think it’s important that you’re certain of that. So, can you be ... can you clarify when, to your best recollection, you were told that Anglo was insolvent?

Mr. John Gormley: I can't. As I replied to Deputy Doherty, I can't give you a precise date. I'm more than happy to consult and to send in information to you on that.

Deputy Michael McGrath: Okay.

Mr. John Gormley: I do know that Anglo themselves tried to persuade people in government that they were going concern, that everything was, to use ... it wasn't fine, but they were telling us that they could continue on. And, as I said - and I will consult afterwards - my colleague at the time, the finance spokesperson, Dan Boyle, was the one who said, no, we've ... there is a problem. Now, and that came from information that was supplied to us by Eamon Ryan, but I'm more than happy to go back, and, can I say this, Chairman? Eamon Ryan took copious notes, and those notes are now in the UCD archive. I suggest that they should be here, in front of you and your committee, because they're the best notes. In fact, at one stage other members of the Cabinet used to get a little bit irritated there were so many notes being taken. But they're there, and I think they would provide an important insight for this committee. And I would suggest that, not only do you get hold of those notes that are in the UCD archive, but that you would also interview Eamon Ryan as well.

Deputy Michael McGrath: Okay. Thank you, Mr. Gormley, and finally, Chair, if I may-

Chairman: Certainly, yes, sure.

Deputy Michael McGrath: Just very finally, on page 8 of your witness statement, Mr. Gormley, under the heading of the "**3rd quarter [of] 2010**", you refer to asking the Taoiseach to bring in the leaders of the Opposition in the Dáil to explain the situation and to seek a form of national co-operation as to how we could manage our way through this period. Can you clarify when that was? Was that October, November 2010, prior to the bailout negotiations? And, then you say that that did happen, that there was a meeting. You might clarify who attended that. But then you say, presumably referring to the Opposition, "refused to enter any collaborative arrangement to manage the considerable risks that face the country." So can you clarify what was considered at that time? Was it kind of a Tallaght strategy-----

Mr. John Gormley: Yes.

Deputy Michael McGrath: -----that there would be a national consensus at a political level? Can you just clarify who was there, what was it about, what were you hoping to achieve?

Mr. John Gormley: Okay. I'd have to get you the exact date but my recollection is that the meeting took place in the Taoiseach's office. I was there, as was the leader of the Fine Gael Party, Enda Kenny, as was the leader of the Labour Party, Eamon Gilmore. I have to say I was disappointed in the response. I suppose, from a political point of view, it's understandable that the leaders of the Opposition were not interested in a type of Tallaght strategy, as you put it. What they wanted was a general election. You know, I was quite prepared at that stage to say to people "Look this is a national emergency. This is what this country is going through right now. We need to co-operate and if that means that we co-operate for a period of time and then have a general election, so be it." Now, it was not a runner - immediately, I could see - and, in fact, I heard that before we even went into the meeting that there had been a statement made to some of the newspapers to say that they weren't interested. During that meeting, my memory is that Deputy Kenny, as he was then, was quite silent - he didn't say that much. Deputy Gilmore was a little bit more aggressive in saying he wanted a general election now and that was the end of

it. And ... so that's how it turned out. I was particularly disappointed then afterwards because you may recall that the Green Party then subsequently left Government and we voted for the Finance Bill from the Opposition benches. And Eamon Ryan, at that stage then, tried again and he approached Simon Coveney with an offer. And the offer there was ... it related to a motion of no confidence and Fine Gael and Labour said that they would vote ... they would withdraw their motion of no confidence and the reason for that was that we had made it very clear that we would have no option at that stage, because we had withdrawn from Government, that we would have to vote with the Opposition. And so, therefore, if they had voted, at that stage, no confidence in the Government, the Government would have fallen and the incoming Government would've had to introduce the Finance Bill.

Now, from a political point of view, I have to be quite frank with you and say that was my preference - you know, let someone else do the heavy lifting - because I was a little bit peeved at what happened previously, when I had tried to extend a hand of co-operation and it was, you know, put aside. In the end, a deal was done. I think ... if I ... I was not at that meeting. I think Eamon Ryan was at that meeting,. If I recollect correctly, perhaps Senator Doherty, as he was then, was at that meeting. And, you know, it was an arrangement that was made. We voted from the Opposition benches for a terrible Finance Bill and that sealed our fate, you know. I mean, we had to go into an election after that.

Deputy Michael McGrath: Do you regret that now?

Mr. John Gormley: Well, you know, at times of course you might regret doing that but it was, from a political view ... but it was the right thing to do for the country. And ... but you sometimes don't get kudos for doing the right thing.

Chairman: Thank you, Deputy McGrath. Thank you, Mr. Gormley.

Senator Susan O'Keefe: Chair, can I ask for clarification? Given the weight of importance that Mr. Gormley has given to Mr. McWilliams' correspondence ... that we just ask Mr. Gormley why it was he chose Mr. McWilliams because no one else has asked that question? Why was it Mr. McWilliams that you chose to be the one to ask for advice? Thank you, Chair.

Mr. John Gormley: Because Mr. McWilliams was ... there were very few people that called it right in relation to the bust. Mr. McWilliams did call it correctly. He was right and so I wanted to get a different perspective. I wanted to find out from someone ... I found him to be engaging, personable, quite enthusiastic and he had ... I had met with him down in my Department. He'd also been on the ministerial corridor, we had had chats. I don't say I ... I knew him very well but I ... I knew him reasonably well, on a professional level, and I listened to his advice and I found him to be, as I said, very co-operative and that's why I spoke to him. I had had some contacts with him and I used those contacts. I didn't have contacts with other economists and, in any case, as I said, the two people that were right about the bust were Morgan Kelly and David McWilliams, as far as I can recall.

Chairman: Okay, thank you very much. I'm going to bring matters to a conclusion. If, maybe in reverse order this time, if you wish, if there's any closing remarks, comments or additional things you'd like to say, Mr. Gormley and Ms Harney. Ms Harney?

Ms Mary Harney: No, Chairman. I'd like to thank the committee for their courtesy and I want to wish you well. I think the work you have ahead is important. It will certainly, hopefully, add to our ... not only our store of knowledge that we've already received from other re-

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ports, from Honohan and the other people that have ... Watson and so on, but also that I think it will hopefully improve the economic management of the country. And, I suppose, if there's any message, it is that we all need to be more questioning than perhaps we were, particularly when there's a national consensus. I think that is a time for parliamentarians, particularly members of Government, to get behind that and to be more questioning and that's something I think that we overlooked in ... during the period that we're talking about, during the run-in to the recession.

Chairman: Thank you very much, Ms Harney. Mr. Gormley?

Mr. John Gormley: I would just like to add one thing. I think reference was made, at a previous hearing, to Paul Gallagher, the Attorney General-----

Chairman: Yes.

Mr. John Gormley: -----and the Green Party attitude, there was reference made in Dan Boyle's book. Now, I can understand why it is that political parties would feel that the AG's office is a block; it's quite natural. You know, the AG's office goes through things line-by-line and says, "You'll have to go back." And it prolongs the legislative process. But from my own point of view, I hold Paul Gallagher in very high regard. He was of enormous assistance to me. He worked extremely hard. He's dedicated to public service. He helped me particularly on the issue I was dealing with, which was the incinerator. I was at the time ... I was told at the time that if I didn't deal with this properly and work on it and take it step-by-step in a very measured and legislative way, that they could pursue me personally. This is the ... and Paul Gallagher helped me out and I'm very grateful to him for that and I just want to put that on the record.

And finally I want to say, Chairman, I think this is an important committee. It's important that your report is very thorough, that you go through every single thing. I don't think, to be quite honest with you, that even with the best will in the world, and putting in all of these measures, that you will avoid in the future another bust. It is part of the cycle. But you can, I hope, mitigate those circumstances and ensure that, in future, we don't come down with such a thud.

Chairman: Okay, with that said, thank you very much, Mr. Gormley and Ms Harney, for your closing comments. In doing so, I'd like to thank the both of you for your participation today and for your engagement with the inquiry. In thanking you again, to now formally excuse you and to suspend the meeting until 6.45 p.m.

Sitting suspended at 6.23 p.m. and resumed at 6.57 p.m.

EBS - Ms Fidelma Clarke

Chairman: With the committee's permission, I'll go back into public session, is that agreed? Agreed. And we now move on to our fourth and final session of public hearings today with Ms Fidelma Clarke, former chief risk officer with EBS. And just from the outset, apologies for-----

Ms Fidelma Clarke: Not at all.

Chairman: -----delaying you today, Ms Clarke, and we'll get proceedings under way as quickly as we can now.

Ms Fidelma Clarke: Thank you.