

SEANAD ÉIREANN

Dé Máirt, 15 Meitheamh 2010.
Tuesday, 15 June 2010.

Chuaigh an Cathaoirleach i gceannas ar 14.30.

Paidir.

Prayer.

Business of Seanad

An Cathaoirleach: I have received notice from Senator Jerry Buttimer that, on the motion for the Adjournment of the House today, he proposes to raise the following matter:

The need for the Minister for Education and Skills to make a statement on her decision not to renew the contracts of 30 librarians employed in junior certificate school programme libraries in DEIS schools throughout the country.

I regard the matter raised by the Senator as suitable for discussion on the Adjournment and it will be taken at the conclusion of business.

Order of Business

Senator Donie Cassidy: The Order of Business is No. 1, motion re combating sexual abuse, the sexual exploitation of children and child pornography, to be taken without debate at the conclusion of the Order of Business; No. 2, Competition (Amendment) Bill 2010 — Committee and Remaining Stages, to be taken at the conclusion of No.1; No. 3, motion for earlier signature, to be taken at the conclusion of No. 2; and No. 4, statements on the banking reports, to be taken at the conclusion of No. 3 and conclude at 7.30 p.m., on which spokespersons may speak for 12 minutes and all other Senators for eight minutes, and Senators may share time, by agreement of the House, with the Minister to be called upon ten minutes before the conclusion of the debate for closing comments and to take questions from leaders or spokespersons.

Senator Frances Fitzgerald: I welcome the imminent publication of the Saville report on the events of Bloody Sunday. I am sure the Leader will arrange for us to debate it and discuss its findings. I call on him to arrange such a debate as soon as possible.

I am sure Senators on all sides of the House are pleased that the Seanad is back in session this week.

Senator Jerry Buttimer: Hear, hear.

Senator Frances Fitzgerald: Last week we had a bizarre situation where the Government published two long awaited banking reports but the Seanad did not sit, while the Dáil was effectively muzzled by the actions of the Government. We know that every possible forum in

[Senator Frances Fitzgerald.]

the country was discussing the reports. Independent experts, domestically and internationally, delivered a damning verdict on the actions of the Government and the Taoiseach, the culture of banking and the system of so-called light touch regulation, over which the Government had presided. I recognise that we will have an opportunity to debate the reports later today. However, we must remember that they do not encompass any examination of NAMA or the recapitalisation of the banks and that the Taoiseach was not interviewed. At the weekend we heard from Dr. Michael Somers of the NTMA. He referred to the next stage of the banking inquiry in which the role of the Department of Finance should be examined. It is very clear at this stage that we need a banking inquiry to be held in public, that would be comprehensive and examine all of these issues. How does the Government respond to the comments of Dr. Somers? When will the terms of reference for the banking inquiry be brought before the House? Will they be broadened to include the Department and the Minister for Finance? We need answers to these questions because it is completely wrong, as some Ministers have stated, to suggest the two reports vindicate Government policy. They certainly do not. They do not examine Government policy since 2008. We must hear when the terms of reference will be brought before the House and how comprehensive they will be.

While there will be a banking inquiry, we must have another inquiry for which this House should call, into what happened in our maternity hospitals.

Senator Fidelma Healy Eames: Hear, hear.

Senator Frances Fitzgerald: Why have so many women had the dreadful experience of having scans and being given the wrong information? Only for their persistence, they would have ended up having a D and C, dilation and curettage, procedure which they did not need. This is remarkably traumatic for all the women concerned. We need an independent HIQA based inquiry to ensure this will never happen again. It is disgraceful that after so many years of the Celtic tiger we cannot guarantee women safe scans in our maternity hospitals. I call for this issue to be addressed in the House as soon as possible.

Senator Joe O'Toole: I concur with Senator Fitzgerald on the point she made about the House not sitting last week. The Leader and I have had several disagreements on the matter, but I do not intend to go into the details again. It reflected badly on the Seanad. However, it begs the question of where we stand on Seanad reform. For a variety of reasons, what has happened in the past two weeks has raised more questions about the viability and necessity of having the Seanad. It seems we are playing straight into the hands of our detractors. Where do we stand on the promises we have received three or four times during the past two years that there will be a Bill on Seanad reform? When are we likely to see it?

I refer to a question raised by Dr. Michael Somers, head of the NTMA. I am not going to raise the political issue of who is responsible for what, but I do want to refer to the Ministers and Secretaries Act, 1924. Many of us have suspected for years, but it has now been stated civil servants work to present reports that will reflect well on Ministers. This has not only happened in the past ten years; it has happened with all Governments along the way. I seek a discussion on that point. On three or four occasions recently I have raised the issue of the impact and influence of senior civil servants on all aspects of the public sector and the work of government. This is a serious issue. If we are not getting clear viewpoints, guidelines and reports because they are being doctored and edited to reflect well on the political head of the Department, they are worth nothing to us. A major issue for us to discuss in a non-political way is the putting in place of proper procedures to stop that from happening.

One of the issues with which we need to deal is a paper trail and a trail of decision making. Over the weekend Michael Somers said people no longer write things down in the Department of Finance but lift the telephone and tell people what to do. There is no record there. That is an unacceptable method of decision making. There should be a hierarchical trail of decision making in order for us to recognise everybody's input into every decision. Unless we get that, we will walk ourselves into more trouble.

I have said a couple of times that one of the problems with new Ministers is that they walk into a Department about which they know very little and are overwhelmed by senior civil servants who take control of the running of the Department — perhaps for the good, or maybe not. I would like a clear distinction between the role of the civil servants and the role of their political masters and to ensure decision making is open, clear, dependable, examinable, subject to stress-testing and done with the best interest of the citizens at the heart of it. I would like a discussion on the Ministers and Secretaries Act 1924 and the amendments to it.

Senator Alex White: I welcome the publication last week of the two reports into the banking system. We will have the opportunity to debate them later but there is so much to discuss and so much material in these reports, it will not be possible for us to deal with them in one debate and it will be an issue to which we will have to return in the coming days, weeks and months.

There is much talk in the Houses today about confidence in political leaders and so on. The most important issue of confidence in Ireland today is the confidence people have in their future in the country — the confidence citizens have that this country can genuinely turn itself, or be turned, around — and that there will be a future for their children. Today we see further reports on unemployment figures which show Ireland is now 3% above the EU average.

Notwithstanding Professor Honohan was not asked to look at Government policy, contained within his report is a devastating critique of Government policy in the period under review. I accept he dealt with banking management, the prudential system and the regulatory regime but there is a devastating critique of Government policy. The more one reads these reports, the more serious and shocking they become. They contain a devastating critique of economic policy, budgetary policy and macro-economic policy over the period in question. When historians come to write the history of the past 20 years, these reports will be central documents on which they will rely, in particular Professor Honohan's report.

I was somewhat sceptical, as we in this House have become, in regard to whether the process proposed by the Government was the correct one. Professor Honohan should be congratulated on the clarity and depth of the analysis he gave. However, Senator Fitzgerald is absolutely right that we now need clear terms of reference in order that the Houses of the Oireachtas and, through them, the people can be involved in a really rigorous, open and transparent examination and analysis of what has occurred and why this country and economy have arrived at this shocking state of affairs.

Senator Dan Boyle: I welcome the last point made by Senator Alex White and agree with him that we need several debates on the banking reports. However, since this process has started, there have been questions, in particular from the Opposition side, about whether we would have an investigation and if we had whether it would be done by independent people, and if so whether such reports would be published, and if published whether they would be redacted, and if they were not redacted whether they would contain any criticism of Government policy.

The reality is that this has been an open process and necessary questions have been asked. A template should be put forward as to where we go from here. I am confident the terms of reference, which have yet to be agreed, for a commission of inquiry will also be all-embracing.

[Senator Dan Boyle.]

I listened with interest to the comments of Michael Somers, the former head of the National Treasury Management Agency. I was concerned about what he said in regard to a prevailing culture in the Department of Finance which was not linked to any political party whereby the Department felt there was a need to second-guess the Central Bank on a regular basis and to present quarterly reports in the most benign way to whatever Government was in place. That is not the way information should be compiled and it is not way the public should be informed about the economic well-being of the country. When we have the debates in this House, they will inform a process that has begun, that is open and that is starting to inspire the necessary public confidence, which has been badly undermined by how we were served by such attitudes in the past.

Senator Maurice Cummins: Last week the Leader was totally out of bounds in suggesting that I was responsible for the House not sitting. The Leader makes this type of outrageous statement on a daily basis. If he left the job to his most efficient Government Whip, the House would be run a hell of a lot better. The Leader is bringing the House into disrepute with his statements. To suggest he was having a bloody weekend for Ireland when he was wining and dining and playing golf in Turkey is an insult to the people and to this House. Looking for ten pairs sums up what he thinks of the House and how it should be run. He wants to run it as his own little fiefdom for his own benefit and it will not wash anymore. The public and quite a number of his own party colleagues have seen through his actions. Accusing me as the Fine Gael Whip of being responsible for the Seanad not sitting is outrageous and it is a disgrace coming from the Leader of this House.

Senator David Norris: Hear, hear.

Senator John Hanafin: Today is an important day in Ireland's history because we will have an opportunity again to read in the Saville report whether the innocent people who were on a civil rights march and who were shot dead in Derry 26 years ago will finally be vindicated. It is not a matter of one side triumphing over the other, as that should be the last thing on our minds, but the truth must come out so that those who died and those who suffered will know that the innocent march that took place was justified and the murder of those people was unjustified. I call for a debate at the earliest opportunity.

Senator David Norris: I agree with Senator Fitzgerald regarding her concern about the state of the country's finances and the reports we have received and it is a pity that these inquiries will not take in what one might call "the night of the long fangs" when the bankers secretly visited the sources of power here and sank their teeth into the bank accounts of ordinary, decent citizens. I look forward to some discussion on that but it is a great shame.

I agree 100% with Senator Cummins. I was astonished that this House was prorogued last week and that the newspapers at least appeared to suggest this was all to facilitate a golfing excursion. That certainly brings the entire House into discredit and even yesterday the Order of Business was suddenly amended in order that instead of taking the statements on the banking reports tomorrow, we would take them today.

Will the Leader communicate with the Minister for Foreign Affairs about security provisions for visiting political dignitaries? I seek a debate on foot of the situation that emerged at the Institute of European Affairs last week when the Iranian Foreign Minister visited in the company of a group of his own thugs who were acting as security people. They beat up members of the public who were protesting outside the building about the attitudes and behaviour of the Iranian Government. It is not acceptable that the mercenaries of a foreign state should

beat up Irish people on their own streets and I would like an explanation about how this was allowed to happen. I understand the Institute of European Affairs was requested by the Department of Foreign Affairs to host this meeting and I doubt if its officials were enthusiastic about it, particularly in light of what I heard. The delegation entered the building, were met by the head of the operation, a very distinguished former Irish diplomat, Ms Jill O'Donoghue, and they asked to see the boss. When they were told this was the boss, they asked to see the "real boss, the man". It is about time the Iranian people were told what Irish society is really like, and that we do not appreciate this type of ignorant barbarism.

Senator Ivor Callely: I support the views expressed by Senators Fitzgerald, O'Toole, Alex White and Hanafin. In particular I ask for a special debate on maternity hospitals and matters relating thereto, as regards scans and DNCs. I emphasise "special debate", in line with what Senator Fitzgerald has asked for, as soon as possible.

Equally, I ask for time for the consideration of the Saville report on Bloody Sunday, when we get it.

I very much support the views expressed in relation to the banking crisis. One or two things caught my attention, including Senator O'Toole's reference to the decision making process under the Ministers and Secretaries Act 1924. We recognise that for a host of reasons people have been slow to put pen to paper and sign off on issues, which are now being done in a different manner. I support the need for such matters to be done in a fashion where the decision making process is examinable, as Senator O'Toole put it. When we are discussing the banking crisis the debate should extend more broadly than the two reports. Most importantly, everyone clearly accepts and understands that these reports are dealing with matters that have occurred in the past. We all want to know what is being done for consumers today, for SMEs and what the future holds. Therefore, I ask the Leader that if we are to have a meaningful discussion on this issue, we should be given an appropriate briefing from the financial institutions to allow people such as myself and others to participate in the debate. One banking institution, for example, is asserting that it is approving 100 mortgages a day, which is great news. We are not being told how many are being drawn down, however, and that is the type of information we need.

Before concluding, I ask the Leader to contact the Minister for Health and Children and the HSE on the urgent need to approve the appointment of a paediatric immunologist. A formal application has been made by the consultant for infectious diseases at Our Lady's Children's Hospital, Crumlin, at the request of the HSE. We do not have any paediatric immunologist in Ireland and as the request has been sought by the HSE, I ask the Leader to ensure the formal application is approved.

Senator Paul Coghlan: I share the concerns expressed by Senators Fitzgerald, Alex White and O'Toole and welcome the forthright statement Senator Boyle made on banking matters. I welcome this evening's debate and hope there will be a further debate on these terms of reference when we know what the Government has decided in regard to them.

There is very serious concern about the comments of the eminent public servant, Dr. Michael Somers, now a public interest director at Allied Irish Banks. That is a matter on which we could usefully have a discussion.

All is not well in beauty's home, sadly, at the moment. We are having a difficult tourism season, as everybody knows, and I share the concern of the Mayor of Killarney regarding Iarnród Éireann's unilateral action in reducing greatly the public opening times of the main ticket office there and installing vending machines when 40% of the people do not have the necessary technology to use these things. We accept this is a major tourist destination and that

[Senator Paul Coghlan.]

office and station is a major component part of the our tourism industry. There are significant numbers of people there at various times and it needs to be accessible, as it has been, on an all-day basis.

An Cathaoirleach: The Senator has made his point.

Senator Paul Coghlan: I am sure the Cathaoirleach appreciates what I am saying, and the Minister needs to have a serious discussion with Iarnród Éireann. It is doing sufficient damage as regards closing lines that should not be touched, so I call for a debate on the matter.

Senator Mark Dearey: I support the requests for a debate on foot of today's publication of the Saville report and the Prime Minister Mr. Cameron's statements thereon, which I believe will be delivered in approximately half an hour's time in the House of Commons in England.

Moreover, I ask for such a debate at the earliest possible time. Were it to take
3 o'clock place next week, it would be most timely. I ask for this is because I believe the Widgery report in particular must be completely countermanded. It added enormous insult to enormous injury at that time. While I was a very young child then, I remember well the day itself and the way in which it led to a sequence of events that took many decades to unfold. It was a pivotal moment in the history of the Troubles and of this island. Mr. Denis Bradley this morning described Derry as being in an almost liturgical state today, as the people went through the ritual of closure, which I certainly hope today will bring. I hope the remarks later on by the Prime Minister, Mr. Cameron will bring this about and that the report will exonerate those who were so badly blighted by Widgery and others subsequently. I call for a debate as soon as possible. Members must acknowledge the importance of the report by holding this debate very soon.

I also welcome last week's vote on the Croke Park agreement by SIPTU and IMPACT, which were the big two unions which in all likelihood would swing the deal's acceptance or rejection. Many smaller unions decided to reject the agreement but the scale of its acceptance by the members of IMPACT and SIPTU is to be welcomed. It continues to demonstrate a clarity of purpose as we try to address the public finance deficits and to bring about the public services reforms the OECD recognises are needed. I call for further debate on the post-Croke Park deal scenario as soon as possible.

Senator Paschal Donohoe: I strongly support the point made by Senator Fitzgerald on the need for debate and discussion on the issue of maternity scanning. This is a matter of great importance given the debates in this House regarding the role of the HSE. The HSE was set up to do many things, two of the most important being to ensure that good practice was spread across the entire country and to ensure that a solid understanding was in place regarding what happened throughout the country. As this saga unfolded during the week, it emerged that the first such incident took place in a hospital in Galway in 2006. Although a new procedure was meant to be put in place to ensure it did not happen again, it did not spread beyond that region. Moreover, the HSE gave assurances at the start of the week that only one or two people were involved in this matter. However, by the end of the week the number had risen to nearly a dozen. As someone who had the privilege to be present for the scans of my own children before their arrival, I cannot imagine the trauma this has caused to the parents — and to mothers in particular — who have heard this news. It is vital that a public statement be made on this.

On the reports on banking that Members will discuss soon, I refer to one subtle but highly important development that Members from both sides of the House should welcome. The independence of our main financial institutions, that is, the Financial Regulator and the Central

Bank is becoming increasingly apparent each day. In addition, the rigour is becoming increasingly apparent and this is to the benefit of all.

Senator Diarmuid Wilson: It is worth noting the facts in respect of the House not sitting last week. When the calendar was produced for the sitting days of the Dáil and the Seanad, it indicated clearly that this House would not sit last week. I understand the Leader was requested by a number of Opposition Members to have a sitting last week and to facilitate those requests he came to me to ascertain how many pairs would be required. When I realised the number of pairs required on the Government side, due to people making medical and other personal appointments given that we were not sitting on the day, I indicated that number to him and he asked me to obtain pairs from the Opposition. When I approached the Fine Gael Whip, he was more than obliging and offered me quite a few pairs. However, that was not enough to facilitate the requests I had.

I have an excellent working relationship with all of the Whips, and in particular Senator Maurice Cummins. I regret that Senator Cummins was blamed for this House not sitting last week.

Senator Jerry Buttimer: Hear, hear.

Senator Diarmuid Wilson: That is not a fact. I also understand that the Leader may have been misquoted in that regard when he outlined the facts relating to Senator Cummins and the need for pairs by the Government side of the House. I hope the misreporting of the Leader's comments will not affect the smooth running of this House and the excellent relationship I have with Senator Maurice Cummins, who was not to blame for this House not sitting last week. I also thank the other Opposition Whips, Senator O'Toole and Senator Hannigan.

Let us put this incident behind us. We have seen clearly in recent weeks how the media like to use any type of slip-up in this House to denigrate each and every one of us. It is in all our interests that this House runs as smoothly as possible. I accept we will have hiccups but let us make them as few as possible. I look forward to working with every Member in the future for the next two years, one month and three days.

Senator Frances Fitzgerald: You wish.

An Cathaoirleach: The discussion on the sitting and arrangements for last week are not relevant to today's Order of Business.

Senator Jerry Buttimer: It is relevant.

An Cathaoirleach: The ordering of business for the House is a matter between the Leader and Whips.

Senator Ivana Bacik: I have heard what you have said, a Chathaoirligh, and I do not want to get involved in the battle of the Whips but I do wish to ask the Leader for a debate on the ordering of Seanad business because, as Senator Alex White said, the issue of confidence is topical today. It is fair to say that we have all lost confidence in the orderly running of Seanad business with the unexpected rising of the Seanad last week. As an ordinary Member of the Seanad, I did not know we were rising last week until the Thursday morning before the week we were off. It was most unfortunate that the week coincided with the golfing trip. That is the second time since I——

Senator Donie Cassidy: That is not true.

Senator Ivana Bacik: With respect to the Leader, that is how it was reported.

Senator Donie Cassidy: That is not true.

Senator Ivana Bacik: Unfortunately, this is the second time that the Seanad's unexpected failure to sit in a particular period has coincided with a golfing trip. It is unfortunate when it happens once but to lose two sessions of the Seanad due to golf is more than unfortunate——

Senator Donie Cassidy: That is completely untrue.

Senator Ivana Bacik: ——it is careless.

An Cathaoirleach: We are not discussing golf now. It is time for questions to the Leader.

Senator Donie Cassidy: That is completely untrue.

Senator Ivana Bacik: With respect to the Leader, we must be conscious——

Senator Donie Cassidy: With respect, it is correct.

An Cathaoirleach: We are having questions to the Leader. We will not get into a discussion on golf or other matters.

Senator Ivana Bacik: I called previously for a debate on the orderly running of Seanad business. It makes it much easier and more efficient for all of us if we can know in advance when the Seanad is likely to be sitting. I have no objection to sitting for longer days and sessions. If we have legislation to deal with it is all the better that we should get through it in an orderly and efficient fashion, but what I object to is the chaotic ordering of Seanad business and the unexpected rising of the House on dates when important things were happening and we should have been sitting.

On that note, I echo the welcome extended by other colleagues to the publication last week of the banking reports, which we are debating today. In particular, I welcome their finding that the banking crisis was home made.

I also seek a debate on the recent, excellent report authored by Senator Fidelma Healy Eames on early school leaving. At a time when we are squandering billions of euro propping up zombie banks, we should consider spending more resources on ensuring an end to early school leaving and a solution to the intractable difficulty of adult literacy — school leavers leaving school early with literacy issues. The Labour Party is running a right-to-read campaign.

Senator Mary M. White: We are indebted to the comments by Dr. Michael Somers last Saturday on the “Marian Finucane” programme. We have received two excellent reports on the financial crisis. However, had Dr. Somers not had the courage to speak out and dare criticise the Department of Finance, this issue would be under the political radar. I have personal experience of dealing with officials in the Department which pervades every aspect of society and stops developments in many social issues. I refer, for example, to the late delivery of the early child care scheme and the lack of funding for free breast care screening for women over 65 years. There are many social issues, in respect of which money has not been allocated because of the Department which is a male-dominated organisation and looks at issues with a male's mind. It fails to realise that it is necessary to address certain social issues. For example, one in every six secondary school children leaves secondary school without a leaving certificate.

The bottom line of Dr. Somers's statement is that officials in the Department of Finance saw on a monthly basis the increasing yield from property development taxes and failed to do

anything about it. I am a fan of Dr. Somers who has been outstanding as chief executive of the National Treasury Management Agency. We have had different Ministers for Finance, including Mr. Charlie McCreevy. Dr. Somers said on Saturday that he had criticised the Department when Mr. McCreevy was Minister and had been devoured for doing so at an Oireachtas committee. I am trying to obtain the minutes of that meeting and will advise the House on them later. It is critical that the terms of reference for the new commission to inquire into the financial crisis extend to the officials of the Department. It will be a farce if they are not included.

Senator Fidelma Healy Eames: I welcome the reports on the banking crisis. Why would we overly blame the Department of Finance for the lack of judgment shown by the Taoiseach when he was Minister for Finance? I welcome the fact that a debate will take place this evening when we will hear more about the issue. Let us not practice evasion to a fault.

I express my outrage at the baby scan debacle. I applaud the number of mothers who trusted their own judgment to realise they needed a second opinion. Ultimately, the HSE must be held accountable. We learned of one case in Galway in which a woman went to her general practitioner after a scan and discovered she was still pregnant.

What is the position on the roll-out of primary health care services, about which we have been hearing since the early 2000s and which was to result in the provision of good diagnostic equipment in local primary care outlets? I realise there is a health item on the agenda for tomorrow, but the Leader must obtain answers from the Minister for Health and Children on this issue.

I have told the Leader before that it is time we had a debate in the House on the type of education system we need to provide for equality of opportunity for all young people. In the past ten days I have heard that the Minister for Education and Skills is culling librarians in the most disadvantaged areas attached to the junior certificate school programme. As Senator Bacik asked, does the Minister have any clue who she is placing at a disadvantage? Those affected cannot read or write. Some 30% of the children in question are leaving primary school without literacy skills. They comprise the one in six who are leaving second level without completing the leaving certificate. I support Senator Bacik's request for a debate on early school leaving, for the report on which I was rapporteur. We need to provide for equality of opportunity for all children.

Senator Cecilia Keaveney: I add my voice to those asking for an urgent response from this House in the form of a debate on the Saville inquiry. Within the next few minutes the report will be publicly released. It is vitally important, and that is not just because I come from the region and people in the area have been directly and indirectly affected by this for almost four decades. I was three when these events happened. Many families want the results of the inquiry to vindicate the lives of the 14 people who were gunned down that day. It is vital we give the report the respect of immediately reacting to it in the Seanad.

We should also consider the experience of the island of Ireland and what we have learned from conflict. As I have said previously, I wrote a report for the Council of Europe on how one teaches history in areas of recent conflict. The report was adopted by 47 countries. I was due to be in Norway as a guest speaker on this at an international conference tomorrow but I could not be paired to go. It is important that what we learn from our conflict is used to help in other conflict situations. I was in Stormont yesterday, where MLAs Mr. Gerry McHugh and Dr. Kieran Deeny had Mairead Corrigan present to discuss the Israeli-Palestinian situation in Gaza. One of the links we could use to bring the Irish experience to bear is the fact that one of the current Israeli Ministers, Mr. Yitzhak Herzog, has a direct and indirect relationship with

[Senator Cecilia Keaveney.]

both Belfast and Dublin. Perhaps the MLAs, Deputies and Senators should organise a deputation to meet with him and inform him or work with him with regard to the lessons we have learned from our conflict in an effort to assist the Israelis in dealing with the very pervasive and damaging conflict, for not only the people in Gaza but also for the minorities in Israel.

Senator Rónán Mullen: Members will be aware that last Sunday in Chicago was called “Natasha’s day”. This relates to an Irish student who was badly injured when she was attacked in Chicago. Thanks are due to the people of Chicago who raised \$250,000 to assist Natasha McShane. It is good to hear that she is now walking with assistance, is starting to use her arms and has begun to talk again. We wish her all the best for her recovery. It is appropriate that we record our gratitude to the good people in Chicago who took an interest in her case and showed their generosity and solidarity with her. We should send our good wishes to her and her family.

I too wish to express my concern about the ordering of business in the House. It is rather opaque. I can give one small example of what happens. I was hoping to have a Private Members’ motion debated on a particular date. It was to discuss the need for more hospice-friendly hospital care. This is a very important agenda that must be discussed in terms of making our hospitals more effective, particularly in the provision of end-of-life care and the extension of services and assistance to people caring for those in end-of-life situations. I wish to bring people to the House to hear that debate but it is difficult to plan and organise for such events if one discovers shortly beforehand that it will have to take place on a different date. I accept that sometimes a change in schedule is unavoidable but I would certainly welcome greater transparency and more long-term planning so the House can operate more effectively with regard to its debates.

Finally, I regret that the HSE is planning to close another residential bungalow for ten people with intellectual disabilities. As a result, these people will have to move into unsuitable homes on the campus. I refer to Áras Attracta in Swinford, County Mayo. There has already been a closure of one bungalow affecting ten people and it now appears that another will close. People with intellectual difficulties are the last people who should suffer as a result of cutbacks. I ask the Leader to make that point to the Minister for Health and Children at the earliest opportunity.

Senator Eugene Regan: I refer the House to the Criminal Justice (Theft and Fraud Offences) Act 2001. This Act was passed to deal with, among other matters, white collar crime. Section 6 states: “A person who dishonestly, with the intention of making a gain for himself or herself or another, or of causing loss to another, by any deception induces another to do or refrain from doing an act is guilty of an offence”. This provision has been used in a series of cases, ranging from the claiming of grants from Údarás na Gaeltachta to inducing a bookie to accept a late bet. In its 2008 report the CSO stated that in that year, under the heading of fraud, deception and false pretences offences, 2,627 cases had been recorded, with 227 convictions. Earlier this year it was reported that 1,000 persons were being pursued through the courts in cases involving social welfare fraud. Do the laws we pass in this House only apply to other people, or do they apply to everyone equally? If they apply to everyone equally, I ask that the matter being examined by the committee investigating the expenses of Senator Callely and other Senators be referred to the Director of Public Prosecutions. This is not simply an issue which involves a breach of the rules of the House or Members’ interests; it is a criminal matter.

An Cathaoirleach: The matter is with the committee which will make a decision.

Senator Eugene Regan: I am referring to the matter which is with the committee, but it is incumbent——

An Cathaoirleach: I do not want anyone to pre-empt the decision of the committee.

Senator Eugene Regan: ——on it to refer it to the Director of Public Prosecution who is the appropriate authority to deal with it.

An Cathaoirleach: That is not relevant. The committee is meeting and I do not want anyone to pre-empt its decision.

Senator Eugene Regan: I am giving advice to it.

Senator Feargal Quinn: When I heard sometime ago that unemployment benefit was to be called jobseeker's allowance, I thought it made a great deal of sense that taxpayers' money should be paid to those seeking jobs. However, I was astounded to discover the number who had come to Ireland and who had returned home but were still claiming jobseeker's allowance and child benefit in Ireland. The figures given were substantial — €15 million a year in one case and €20 million a year for child benefit payments. I had not heard of the term previously, but people talk about welfare tourism. I am not sure what is included in European regulations, but that Irish taxpayers' money is being used to pay such sums at a time where we are cutting back on other essential services deserves to be investigated. If these figures are correct — I am not sure that they are — it suggests there is a step that could be taken and I would like to see it being taken as soon as possible because it does not make sense to continue such an operation that is clearly not in the interests of Irish citizens.

Senator Jerry Buttimer: I compliment the Government Whip on his vindication of Senator Cummins. I compliment both Senators on their excellent working relationship. When will the Leader learn that this is the House of the people and that we need to operate on their behalf? The point made by Senator Cummins is valid. This House is not the preserve of any one Member; it is the House of the people.

I join others in asking the Leader for a debate on the Saville report. As somebody who has always been intrigued by the events of Bloody Sunday, I look forward to Lord Saville's vindication of the innocent individuals who died or were injured. The events of Bloody Sunday have left a stain on the country and I hope today the people of Derry will be liberated and have an opportunity to blossom once again. Perhaps the Saville report will mark the launching of a new Ireland of hope, peace and reconciliation. I sincerely hope the Leader will arrange a debate on the report at the earliest opportunity. I also hope the Widgery report will be banished forever and that the men and women of Derry who, as politicians and ordinary citizens, were involved in civil rights issues will be vindicated. I hope there will be rejoicing at the fact that Ireland will at last be told today that the people who marched on Bloody Sunday were not murderers, but ordinary citizens looking for what was best for their country.

Senator Eoghan Harris: Overstating anything borders on falsehood. I wish to go against the grain of two consensuses that have developed in the House in recent weeks. First, the three authors of the two banking reports did not state the recession was purely domestically made. In subsequent press conferences and in all of the media, they went out of their way to point out that there were global influences. It is like saying there was no connection between the fascism that broke out in Spain, France, Romania, Portugal and Ireland in the 1930s. Every country in recession saw a sub-prime situation, banking recklessness and all of the contours of the Irish situation. While the Irish crisis is a domestic one, it is not isolated from the rest of the world.

[Senator Eoghan Harris.]

Second, I wish to raise the matter of Israel. The Czech ambassador was present in the House a few minutes ago. I would recommend Members to study carefully the temperate and calm statement of the Czech President, who managed to give Israel and the Palestinians their dues. It contrasts strongly with the intemperate hysteria being created by the Minister for Foreign Affairs, Deputy Martin.

Senator Joe O'Reilly: Senator Alex White, who can be reflective in his comments in the Seanad, is being disingenuous in trying to suggest that responsibility for the debacle that is our economic mismanagement of recent years rests with civil servants. The reports bear testimony to the fact that responsibility rested with the then Minister for Finance, An Taoiseach, Deputy Cowen. There is no escaping this reality. I draw the House's attention to the first line of the executive summary of one of the key reports, which reads: "Ireland's banking crisis bears the clear imprint of global influences, yet it was in crucial ways 'homemade'". No one disputes the first point, but the second is important and is borne out in both reports.

Will the Leader request the Minister for Health and Children to make a statement, as distinct from a debate, to the House on the horrendous recent situation of mothers' mistaken scans? Her statement must outline to the House the corrective measures that will be taken to ensure double checks whenever there is any doubt. There must be objective testing to ensure the mistake does not recur. As has already been done, we can only applaud and congratulate those women on their bravery. This situation comes on foot of the horrendous hysterectomy scandal in the north-east region. That there was such a case in Drogheda is particularly sad and poignant. I appeal to the Leader to assure the House that the Minister will make a specific statement to those women and to the women of Ireland on this issue outlining what will be done.

An Cathaoirleach: Time, please.

Senator Joe O'Reilly: As an Ulster person and a representative of a Border constituency, I join with the appeal to the Leader for a debate on the Saville report. The report will form part of a healing process for the people of Derry and the boil can be lanced at last.

Senator Donie Cassidy: Before responding to the Order of Business, I congratulate the five young men who represented Ireland so well at the European championships and won gold, bronze and silver. I wholeheartedly wish them well in future. They are an example to us all.

Senator Alex White: Hear, hear.

Senator Donie Cassidy: Senators Fitzgerald, O'Toole, Alex White, Boyle, Hanafin, Norris, Callely, Coghlan, Dearey, Wilson, Bacik, Mary White, Healy Eames, Keaveney, Mullen, Buttimer, Harris and O'Reilly called for a special debate on the Saville report. The horrific events of 38 years ago, the 14 lives lost among those making a peaceful protest, has left an indelible mark on our memories and those of the families who lost their loved ones. I look forward to it coming to the House and allowing the longest time possible for debate.

On the call in regard to banking issues, we will have that debate later this evening for three hours. It is my intention that we will debate it as long and as often as required and requested.

Regarding the trail of decision making referred to earlier in the House, it is of the utmost importance that all decisions are available to be seen in written form and on film and to discuss the Ministers and Secretaries Act 1924 in terms of the way it fits in with the requirements of this 21st century. We will see how the debate on the banking report progresses this evening and then determine what further time is required, particularly in regard to the comments made by Michael Somers and others since the reports were published.

Senators Fitzgerald, Callely, Donohoe, Healy Eames and O'Reilly called for a special debate on our maternity hospitals. I have no difficulty in allowing time for that debate to take place. There is an urgency about this issue, and it is certainly timely. One's heart would go out to some of the mothers in the stories told, and the lovely young boys and girls we saw on our television screens, in regard to the trauma they had to go through.

On Senator O'Toole's question about Seanad reform, I will make an inquiry again of the Minister's office and come back to the House later in the week to see how that legislation is progressing.

Senators Cummins, Norris and Buttimer raised the matter of sittings last week. As we are all aware, the Seanad sessions diary was published in the first week in March. All the party leaders, including Senator Bacik, called for a diary of the sitting days and it was in that endeavour that I published it on that date. I said on publishing it that it should be noted that Seanad dates are indicative and may be subject to change. We did not change one day on it. Last week the Dáil was not due to sit. We were not due to sit. There was a change of mind and the Dáil sat. The leaders asked me if we could sit. I asked my Whip the position in regard to pairs and he came back to me and told me the difficulty we were in on the Government side because our colleagues had gone for medical check-ups and had various other arrangements made, which was understandable.

The confusion regarding the number of pairs needed arose when I returned home on Tuesday morning and I responded to a comment Senator Cummins had made. I have always had nothing but the height of respect for all colleagues in the House — the leaders and the Whips. The Whips' job in particular is a very difficult one. I would like to compliment Senator Cummins, our own Whips, Senator Wilson and Senator Glynn, and all the Whips on the excellent work they are carrying out in the House. I have learned from the experience.

Regarding the diary, if there is anything about which I have a regret it is that I did not put it before the House for the approval of the House. Be that as it may, if it is necessary to sit extra days, weeks or whatever to do the business that has been ordered by Government and requested by Senators in terms of statements or whatever else, I would like to think I am an accommodating Leader of the House who works very well with the leaders. I am grateful for the assistance from the Cathaoirleach, the Leas-Chathaoirleach, the clerks and everyone associated with this House. I am honoured and privileged to be Leader of the House. I have always viewed my role as such. My activities at the weekend, whether when I played hurling or now golf, do not interfere in any shape or form with the House. It was only a four day visit which took place on a weekend. I was back on Tuesday morning and if the House was sitting I was ready and available to sit.

I would like to think that all of us have a sporting outlet whether it is walking, talking or whatever because it is something that will extend the quality of our lives, keep us fit, alert and outdoors. God knows we are entitled to a little recreation every weekend after the work of the House and helping our constituents as we all do our very best, irrespective of the party of which we are a member. We are representatives of our people for a short time and we do our best for the time we are here. I thank everyone for what they have done to help and assist me in the years I have been a Member of this House.

Senator Norris asked that his very strong views be passed on to the Minister for Foreign Affairs regarding visiting foreign dignitaries. I will certainly do that.

Senator Callely raised the issue of the approval of a consultant and the need to contact the Minister for Health and Children. The Minister for Health and Children will be in the House tomorrow. The Senator's request is timely and we will possibly get the answer from the Minister here tomorrow.

[Senator Donie Cassidy.]

Senator Coghlan expressed serious concerns regarding the opening times of the Iarnród Éireann ticket office in Killarney, especially during this high season in the country's No. 1 tourist attraction. I will pass on his views to the Minister.

Senator Dearey welcomed the vote by IMPACT and SIPTU on bringing about changes that are badly needed in our country at the present time. I join with Senator Dearey in wholeheartedly welcoming the outcome of the vote by IMPACT and SIPTU, which shows the responsible leaders and the responsible membership in those organisations. Never was that more wanted, and any of us who have met our colleagues from parliaments in other destinations are aware that they are all talking about the way Ireland is managing to meet the challenges and bring in corrective measures, hand in hand with the trade union movement and with the workers of our country.

Senator Bacik called for a debate on Senator Healy Eames's report. I will consider that later today.

Senator Mullen spoke about Natasha McShane and the great progress she is making. He complimented the people of Chicago for their fund-raising activities which raised \$250,000 for this beautiful girl from Camlough, which is not far from where those of us along the Border counties live. What happened to her was a tragedy but it is lovely to see that progress is being made.

Senator Mullen called for a debate on hospice care. I fully support the call. We have already had debates here on the good work hospices are doing in every parish and townland. I have no difficulty in the House having a further debate on that issue.

Senator Regan outlined points to the House. The Cathaoirleach correctly made his views known in regard to the committee sittings in that regard.

Senator Quinn raised the issue of the €35 million being claimed by welfare tourists. That should be investigated as a matter of urgency. The huge amount of money — €35 million — in regard to this activity is totally unacceptable.

Order of Business agreed to.

Competition (Amendment) Bill 2010: Committee and Remaining Stages

Sections 1 to 3, inclusive, agreed to.

Title agreed to.

Bill reported without amendment and received for final consideration.

Question proposed: "That the Bill do now pass."

Minister of State at the Departments of Enterprise, Trade and Innovation, Education and Skills and Communications, Energy and Natural Resources (Deputy Conor Lenihan): I thank Senators for their kind assistance in getting this Bill through the House. I noted their many contributions on Second Stage.

Senator Feargal Quinn: I congratulate the Minister of State and his officials for getting the Bill through the House. We had a good debate on Second Stage and will get through Committee and Remaining Stages without making amendments.

Senator John Carty: I congratulate the Minister of State for getting the Bill through the House without amendments.

Senator Joe O'Toole: I support the comments made. I also note the new chief executive officer of the Competition Authority, Mr. Declan Purcell, did extraordinary work some 18 years ago on the consolidated companies legislation, the most difficult ever dealt with in this House. It has lasted 18 years and the Department is now working on amending it. As it happens, six months ago the Minister of State, Deputy Conor Lenihan, promised the House the amending legislation would be introduced this spring, but it has now been put back to the autumn. Mr. Purcell was involved in all of the significant changes to company law at a time when companies were sprouting like mushrooms overnight with different names and addresses and abusing the principles of limited liability. I have complete confidence in him in the job he is doing with the authority and I am sure he will outshine his predecessors. He will bring common-sense practicality to his post which is necessary for the consumer.

Question put and agreed to.

Competition (Amendment) Bill 2010: Motion for Earlier Signature

Senator John Carty: I move:

That, pursuant to subsection 2° of section 2 of Article 25 of the Constitution, Seanad Éireann concurs with the Government in a request to the President to sign the Competition (Amendment) Bill 2010 on a date which is earlier than the fifth day after the date on which the Bill shall have been presented to her.

Question put and agreed to.

Sitting suspended at 3.45 p.m. and resumed at 4.15 p.m.

Banking Reports: Statements

An Leas-Chathaoirleach: I welcome the Minister of State, Deputy Mansergh.

Minister of State at the Departments of Finance and Tourism, Culture and Sport (Deputy Martin Mansergh): I welcome the opportunity to address Seanad Éireann on the two preliminary banking reports laid before the Oireachtas last week. They were prepared by Mr. Klaus Regling and Mr. Max Watson and by the Governor of the Central Bank and Financial Services Authority of Ireland, Professor Patrick Honohan, respectively, submitted to the Minister for Finance at the end of May and considered by the Government prior to being laid before the Oireachtas and published last week. I thank the three gentlemen for what are excellent and in depth reports. Fears were expressed before the work was done that they would not be substantial reports and that they would not get to the heart of the matter. These fears have proved to be completely unfounded.

I will set out the background to the reports, outline their main conclusions and set out the proposed next steps for further consideration of the issues raised and the recommendations contained therein. The Seanad will recall that last January the Government set out a comprehensive framework to the Oireachtas for an investigation into the banking sector. This investigation consists of two distinct stages. The preliminary reports published last week form the first stage of the investigation. The second is to consist of a statutory commission of investigation. The Government proposes to seek the approval of the Oireachtas shortly to establish the commission following consideration by the Oireachtas of the preliminary reports and the proposed terms of reference for the commission. The Seanad's consideration of the reports starts this afternoon.

[Deputy Martin Mansergh.]

As the Minister for Finance set out in the Dáil last January, this two-stage approach to the investigation proposed by the Government reflects and recognises the strong desire among Members of the Houses and the wider public for a comprehensive understanding of the events that took place in the banking sector in this country in recent times. We have a duty as a Government and as Members of the Oireachtas to ensure not only that the origins of the crisis are understood, but that lessons are learned and that international and domestic confidence in our banking system is restored and the economy can return to growth and employment.

The report of the Governor of the Central Bank deals with the period from the establishment of the Financial Regulator in 2003 to the end of September 2008 when the provision of exceptional Government support, in the form of the extensive State guarantee for the liabilities of the Irish domestic banking system, was announced. It deals with two distinct aspects: crisis prevention in the years before 2008 and crisis containment starting with the onset of the global liquidity crisis in August 2007.

The report's key conclusions as regards the Financial Regulator are that the root causes of the difficulties in the banking sector appear to have been twofold: a regulatory approach which was and which was perceived to be excessively deferential and accommodating, insufficiently challenging and not persistent enough — this meant not moving decisively enough against banks with governance issues and that corrective regulatory intervention for the system as a whole was delayed and timid — and an under-resourced approach to bank supervision that, by relying on good governance and risk management procedures, neglected quantitative assessment and the need to ensure sufficient capital to absorb the growing property-related risks. As far as the Central Bank is concerned, the Governor's report highlights an unwillingness on the part of the Central Bank to take on board sufficiently the real risk of a looming problem and act with sufficient decision and force to head it off in time.

In addition to the role of the Central Bank and Financial Services Authority of Ireland, the Governor's report concludes that banking practice and macro-economic and fiscal policy both clearly played a central role in contributing to the crisis. In regard to banking practices, the report concludes that there is *prima facie* evidence of a comprehensive failure of bank management and direction to maintain safe and sound banking practices, instead incurring huge external liabilities in order to support a credit fuelled property market and construction boom. In regard to macro-economic and budgetary policies, the Governor's report takes the view that such policies contributed to the economic overheating, relying to a clearly unsustainable extent on the construction sector and other transient sources for Government revenue. The report goes on to state a less accommodating and pro-cyclical policy approach would have acted to greatly reduce the need for preventive action by the Central Bank and the Financial Regulator.

The report of Klaus Regling and Max Watson looks at the recent crisis in Ireland's banking system as a whole to inform the future management and regulation of the sector. This preliminary view seeks to clarify how different factors — external and domestic, macro-economic and structural — interacted to cause the banking crisis in Ireland. The report is characterised by its authors as a diagnostic rather than a forensic study, the overall approach of which is to highlight factors relevant to the difficulties that arose in the banking system without prejudice to institutions or individuals and to recommend where further investigation seems desirable to achieve greater clarity and ensure incentives are corrected for the future.

The key conclusions of the Regling-Watson report can be summarised as follows. While Ireland's banking crisis has been influenced by global events, it is clear that in various ways bank practices and governance failings, taken together with Government policies and weak financial supervision, seriously exacerbated Ireland's credit and property boom, leaving the

economy vulnerable to a deep crisis and depleted its fiscal and banking buffers when the crisis struck. Ireland's difficulties arose from a property bubble, compounded by exceptional concentrations of lending for property, commercial property specifically, and within that sector to a limited number of key developers. Indicators such as credit growth, asset concentration, loan to value ratios and funding exposure should all have pointed to risks. The report states lending trends in the Irish banking sector, especially from 2003 onwards, feature a pace of expansion and a rise in asset and funding risks that should have rung alarm bells and that these trends were similar to trends in economies that had earlier experienced a financial crisis. Bank supervision in Ireland was weak and the response of supervisors to the build-up of risks was not sufficiently hands-on or pre-emptive and was, in some cases, too mild to make a major impact on these risks. Problems within individual banks often reflected several elements, including a failing of checks and balances, which involved a number of actors within and outside the institutions. Bank management, including risk management, and governance were weak; credit risk controls failed and internal procedures were overridden.

It is important to keep in mind that these are preliminary scoping reports intended to point the way to more detailed examination of specific issues by a statutory commission of investigation. It is also important to state Mr. Regling and Mr. Watson and Professor Honohan have all stated that where problems arose, they reflected the actions of several elements, each of which interacted in mutually reinforcing ways. In that context, both reports identify a number of areas which might be investigated further by a commission of investigation. However, there is a caveat, that is, that Mr. Regling and Mr. Watson are careful to distinguish in their report between those issues that are amenable to further investigation through a legally orientated process such as a commission of investigation and other issues which are less concrete and verifiable and may be more appropriately the subject of a policy review. The Government accepts this distinction. In its statement last Wednesday, 9 June, it set out how it proposed to take forward further consideration of these two strands.

In regard to those areas for further investigation by a commission of investigation, the report of Mr. Regling and Mr. Watson sets out a comprehensive set of issues, broadly covering specific breaches of corporate governance and failures in risk management which the report authors consider are amenable to a promptly executed, legally orientated process through a commission of investigation. The Government has, therefore, prepared and published draft terms of reference which seek to encapsulate these issues. I will not quote the draft terms of reference in full, as Senators will have had sight of them, but it would be useful to summarise their broad parameters. They include: within each of the institutions guaranteed by the Government, the main causes of the serious failures to implement and adhere to appropriate standards and controls and to ensure prudent risk management policy and procedures; with regard to Anglo Irish Bank and Irish Nationwide Building Society specifically, the main causes for the adoption by their boards and implementation by their senior managements of business models and strategies which resulted in these institutions experiencing severe financial distress; whether the external auditors of each of the covered institutions had commented in their audit reports on the standards and controls and risk management policy and procedures or the business models and strategies and business and lending practices of the covered institutions; and the main causes of the failures of the Central Bank and the Financial Regulator in respect of the regulation and supervision of the covered institutions and the maintenance of financial stability, in particular in regard to the supervision and oversight of corporate governance and risk management policies and practices in all of the covered institutions and the relevance in this regard of any advice or directions given by the Department of Finance to the CBFSAI regarding its supervisory role. It is proposed that the commission investigate these issues as they arose

[Deputy Martin Mansergh.]

between 1 January 2003 to 28 September 2008 and prepare its report within six months of the date of its establishment.

The terms of reference published by the Government are in draft form only. The Oireachtas, in line with the framework set out by the Minister for Finance last January, will have a central role in shaping the terms of reference. The main elements are as follows: the Government has invited the Oireachtas Joint Committee on Finance and the Public Service to provide its views on the draft terms of reference having regard to the two preliminary reports. I understand the committee has had two separate and lengthy engagements with the authors of the reports. Messrs Regling and Watson appeared before it last Friday, followed by Governor Honohan this morning. I watched Senator Ross as he questioned the Governor earlier. When the joint committee has provided its views on the terms of reference, it is proposed that the final terms of reference be put to a vote in both Houses of the Oireachtas in the form of a draft Government order. It is envisaged that this vote will take by the end of June. Once approved by both Houses, the order establishing the commission is to be signed by the Taoiseach.

In addition to the areas to be dealt with by a commission of investigation, the Regling-Watson report also highlights a broad range of other issues which it believes should trigger important learning at the level of policy formulation and execution and which may carry broader political and social lessons. They stress that these issues are, in general, less concrete and verifiable and appear less amenable to a legally oriented process of investigation. The areas in which lessons for policymaking need to be learned for the future include macro-economic management and fiscal policy; the need to mitigate through fiscal and prudential policies any mismatch between monetary conditions and the national business cycle; the appropriate management and surveillance of imbalances and risks that can build up in both the private and the public sectors of national economies in the eurozone, including “external” imbalances *vis-à-vis* other euro area members, and the way these imbalances are funded; the design of fiscal policies so as to build in sufficient allowances for temporary revenues to avoid erosion of the tax base and, in this context, the case for independent institutional sources for economic and fiscal projections and national fiscal rules in due course.

The Government fully endorses the conclusions of the preliminary reports prepared by the Governor of the Central Bank and Messrs Regling and Watson. The reports provide comprehensive and authoritative examinations of the crisis in the banking sector in Ireland. They provide a solid basis for further Investigation of specified issues which will enable us to understand the origins of the crisis and help us to learn lessons which will inform our future management of the banking sector. I commend both reports to the House and very much look forward to hearing the views of Members.

Senator Liam Twomey: I wish to share time with Senator Bacik.

Both reports are important in clearing up what happened in Ireland in recent years. It is sad that they show all the mistakes that were made during the latter years of the Celtic tiger, for which we will pay for decades. They conclude there was a great sense of hubris in the country from 2004 until the time the Celtic tiger died. They give a sense that nobody was in charge and that nobody from the Government down cared about what was happening in the financial sector and even the wider economy. As long as there was a perception that there was loads of money in the economy, it did not matter what might be fundamentally wrong with it.

The reports point to many mistakes, poor and weak regulation and insufficient stress testing of the financial system. Both the Financial Regulator and the Governor of the Central Bank were too close to Ministers and the Government. They were not prepared to stand up on what was going on in the economy and to highlight in a clear manner what was going wrong and

what had landed us in the mess we were in. There were concerns. For example, commentators pointed out that in some years the construction sector was accounting for between 12% and 14% of GDP when the European norm was approximately 5%. We had a construction boom and were being told historically Ireland was underdeveloped. Financial institutions provided 100% mortgages to be repaid over 30 years, did not seek deposits for house purchases and allowed people to borrow up to five times their annual salary because they were able to access cheap money in international markets. These circumstances pushed up property prices and the Government did nothing to prevent this from happening. The legacy is that the same properties are worth less than half their purchase price and those who bought them are stuck with them. They are in chronic negative equity and will be for a number of years.

The Minister knows well that if access to credit was almost unlimited, houses prices would increase. They have returned to their normal level because the market has repositioned itself following the collapse of the construction bubble. During the same period the value of the economy expanded by between €12 billion and €15 billion a year, the equivalent of the borrowings of households at the time via the banks. The money was used to speculate on property. It was pointed out that this was unsustainable. It comes as no surprise, therefore, to read comments on this in the reports. One has to ask what was going through the minds of developers and Ministers when everything was crazy. What was going through the minds of the former Taoiseach, Deputy Bertie Ahern, and the former Minister for Finance and current Taoiseach when they said the fundamentals were sound and that anyone talking down the economy should commit suicide? Warning bells should have rung not only in the Regulator's office but also at government level, but clearly they did not. Ministers and officials were either asleep on the job or had been in position too long and lost interest in their regulatory role. That has put us in the mess we are in.

We may be able to make changes that will prevent us from ending up in this position in the future. There is a reason the Government parties did not want to touch the golden goose, the taxation revenue from the property sector. The VAT, income tax and other taxes generated allowed the Government to increase spending and project phoney surpluses. That was the €5 billion or €6 billion that was allowing the Government to expand its spending and project what were basically phoney surpluses at the time, as we now know. That is where we are now, but it is something the Government should have been brave enough to address at the time. Clearly, it did not and we are now left with this issue.

The Government was spending money not on once-off projects but rather using the tax take from the construction bubble on day to day spending. That has left us in a position whereby we must try to cut spending on education and health as well as the salaries of public and civil servants. That is why we are where we are, as the Taoiseach is inclined to say.

An entire range of issues was covered in both reports, and there will be time in the future, perhaps, for us to come back to these. The Regling and Watson report basically spells it all out in four lines. It says this was a home-grown crisis, Government policy added fuel to the fire, with Deputy Brian Cowen's fiscal policy heightening vulnerability of the economy. It says counter-cyclical budgets could have moderated the boom. If these simple findings had been taken into account during the Celtic tiger period, I do not believe we should be in the situation we are. I hope whatever has been learned from these reports will be implemented in the future so we do not find ourselves in such an incredible mess again.

Senator Ivana Bacik: I am very grateful to Senator Twomey for sharing time. As he has said, the reports show how warning bells should have been ringing a long time ago in the Irish financial services and banking sectors. These two reports, one by international experts and the other by the Governor of the Central Bank, lay the blame fairly and squarely on the Govern-

[Senator Ivana Bacik.]

ment and in particular on the Taoiseach, who was then Minister for Finance. It also lays the blame on the Central Bank and the Financial Regulator, whose total failure to supervise the banks and prevent a crash has led us to this crisis.

Earlier on the Order of Business there was some comment to the effect that the reports do not describe this crisis as home-made. However, right at the start of the Regling and Watson report, the first sentence says that while Ireland's banking crisis bears the clear imprint of global influences, it was in crucial ways home-made. The authors go on to point out clearly the very particular home-made features of the banking crisis, namely, weak bank governance and risk management and what they describe in memorable language as the "plain vanilla property bubble", adding that our "banking exuberance" indulged in few of the exotic constructs that caused problems elsewhere. They say this was a plain vanilla property bubble compounded by exceptional concentrations of lending for purposes related to property, notably commercial property.

To put it bluntly, the banks were simply lending too much. They were lending money they did not have. One does not need to be an international banking expert to realise that a check should have been put on the excesses of their banking exuberance at that point. Similarly, in Professor Honohan's report there is very clear reference to the domestic nature of the crisis. In paragraph 1.5, having discussed the difficulties in the global debt markets, he goes on to say that even before the failure of Lehman Brothers in September 2008, Irish residential property prices had been falling for more than 18 months, something that is, perhaps, overlooked now, and few observers expected that fall to end soon. In a much quoted passage, he goes on to say that it was conceivable that had international financial markets remained calm, the two main banks, AIB and Bank of Ireland, might have been able to manage their emerging loan loss problems without Government assistance by drawing on capital. It seems clear, however, that at that point Anglo Irish Bank and Irish Nationwide Building Society were well on the road to insolvency. In my view, that is an extremely critical finding.

The reports go on to discuss how the situation was allowed to emerge and stress the weakness of the Central Bank and the regulatory function. Looking at the finding in particular as regards the road to insolvency on which Anglo Irish and Irish Nationwide were well underway by the time of the collapse of Lehman Brothers, it is now very clear that the banking guarantee which we debated late into the night in this House was ill-advised, in the breadth of its scope in particular. The Labour Party was the only party to oppose it. We voted against it, as I did at the time as an Independent Senator. We were the only ones who did so, and I believe we have been proven right.

Senator David Norris: I voted against it, too.

Senator Ivana Bacik: I apologise to Senator Norris, who corrects me on that. However, very few of us at that time opposed the guarantee. Therefore it is extremely interesting to see now what Professor Honohan has to say about it. It is fair to say the Government has been spinning very hard paragraph 1.25 which finds it is hard to argue with a view that an extensive guarantee needed to be put in place. We all accept that small depositors needed to be protected, and to have confidence in the security of their deposits. However, the report says the extent of the cover provided can, even without the benefit of hindsight, be criticised in as much as it complicated and narrowed the eventual resolution options for the failing institutions and increased the State's potential share of the losses. Again, to put it bluntly, this meant we were on a road that led to NAMA. At paragraph 1.27 the report says it should have been clear at the time the open ended guarantee was provided that the two institutions were on the road to insolvency,

and another key point, the wisdom of leaving senior management in place was not even considered.

There are quite a number of critical findings which emphasise that the fault for this crisis lies at a domestic level with the Government, the then Minister for Finance and the Regulator as well as the Central Bank.

I shall conclude on another interesting point, namely, that what we learn from this is the need to ensure there are adequate levels of regulation and that a greater degree of control is placed over the exuberance of bankers. Left to their own devices, clearly, they become particularly exuberant, but one of the features to emerge strongly from the reports is that in other countries the exuberance took different forms. Complex financial transactions were engaged in among the US investment banks and so on, but in the case of Ireland the banking exuberance manifested itself in what Regling and Watson termed a plain vanilla fashion, amounting to the simple excess of lending by the banks of money they did not have.

A key point about regulation, they say, is that it is important not to emphasise process over outcome. Process was emphasised. Complex regulations were adapted from the EU, but in the end all that was needed was clear regulation as regards the assets the banks should have retained when they were lending. It was not as complex a cause of crisis as in other countries. It was a very simple failure, in fact, yet devastating, as we all know to our cost.

Senator Marc MacSharry: I join with others in welcoming the Minister of State. I am glad to have an opportunity to make a few points with regard to the two reports on the banking crisis. We had the opportunity to hear Mr. Regling and Mr. Watson at the Joint Committee on Finance and the Public Service last Friday, and the Governor of the Central Bank today.

As with the Minister of State, I wholeheartedly welcome the contents of both reports. They are very thorough in their ascriptions and assessment of the crisis and its causes as well as the difficulties that have to be acknowledged in the context of why our system has failed us in recent years. By way of some rebuttal, initially as regards 20:20 vision with the benefit of hindsight — neither Senators Bacik or Twomey were at Friday's committee meeting — I do not recall anything but the clear message being given to the effect that the bank guarantee was absolutely necessary.

Senator Ivana Bacik: That was not the message from the Labour Party.

Senator Marc MacSharry: I do not recall the message being anything other than that Anglo Irish Bank was absolutely systemic to the position in Ireland.

Senator David Norris: Do not challenge the system.

Senator Marc MacSharry: A wide variety of characteristics brought about this crisis. I refer to the joint committee's meetings on Friday and this morning. For those Members who missed the former, Senator Ross gave a good account of it in his article in the most recent edition of the *Sunday Independent*. Those Members who attended the aforementioned meetings would have learned there were substantial international factors, of which everyone now is aware. If they were specifically and simply home-grown, one wonders how Fianna Fáil managed to swing it in so many other economies as well as in this one. At today's meeting, the governor, Professor Honohan was in a position to outline for members what in his view the breakdown of the home-grown nature of the crisis has been. He was in no doubt that in the context of what was home-grown, the primary factor was the role of the banks, their boards and their views. I refer to what they have done, the lack of governance and appropriate procedures therein, as well as the disregard for prudential lending practices. Second — Senator Ross had the benefit of being

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present this morning and can confirm this was the order in which the governor gave it -our regulatory regime completely and utterly failed, as we all know. This of course also was an international factor because international regulatory regimes were far too lax. However, sticking specifically to our own position, in third place were the Government's macro-economic and fiscal policies.

Senator Twomey referred to how we blew the boom and to how the moneys were expended. Senator Ross may be able to confirm that I took the opportunity at today's committee meeting to ask questions regarding two Opposition policies in the run-in to the last election. The first concerned the effect of the abolition of stamp duty and whether that would have limited our potential to deal with the problem or would have exacerbated the problem at the time. The governor, Professor Honohan, made clear that this would have been the case. I note this was Fine Gael policy at the time. Moreover, I recall that at that time, the finance spokesperson for the Labour Party advocated strongly that the National Pensions Reserve Fund should be raided to pay for infrastructural development. This again was something that Professor Honohan was in a position to confirm today would have been short-sighted and would have greatly impeded our ability to deal with the crisis.

I note that from a political perspective, Fine Gael and the various other parties have focused on fiscal policies when criticising the Government. However, it is important to acknowledge the backdrop of that time. Members on this side of the House undoubtedly are fully accepting of the mistakes that have been made. Moreover, with the benefit of hindsight, the pro-cyclical fiscal policies that were being implemented turned out not to be those that we would set out to repeat, had we the opportunity. However, we do not. When deciding on what fiscal policies to implement, one considers one's level of resources, the projections available based on those resources and on activity at the time, as well as on the needs of the nation as a whole. One also would, as Professor Honohan and Messrs Regling and Watson were prepared to do last week, depend to an extent on advice given and to use such advice to back up or influence change to the policies of the day. Members now know that such advice was not available at that time to the extent it should have been. Indeed, in a glowing report, to quote Governor Honohan, the IMF's financial sector assessment programme in late 2006 adjudicated that all was okay. Similarly, international surveillance organisations such as the OECD, the IMF and the European Commission, as well as our home-grown ones, such as the ESRI and others, stated that the situation here was okay. Last Friday Mr. Regling admitted that all of the establishment, that is, the nations of the world and the organisations that adjudicate on such matters, were highly impressed with the model of Irish success and considered that what was being described in many ways was a new order in which such excessively expansionist expenditure policies were backed up by Mr. Greenspan, the European Commission and the OECD. Undoubtedly, with the benefit of hindsight, these turned out to be disastrously wrong.

I will turn to a concern I have expressed many times in the House. On one occasion, the Minister of State, Deputy Mansergh, took me up incorrectly. I believe he thought that I was advocating that Ireland should leave the euro area, which I was not. However, over the last few days Senator Ross will have heard me asking twice about the potential to cool our economy when we are not in full control of our own monetary policy in the context of interest rates. I still have this concern for the future, given that we constitute only 1% of the eurozone economy and that the focus is on inflationary concerns, rather than on Irish economic concerns. It is a matter of concern when money is available at 2% and growth is at 8%. An uninformed economic mind such as mine might suggest this is great, as one can borrow at 2% and as there will be 8% growth, this is a no-brainer. Having raised this issue at both recent meetings of the committee, I still am somewhat at a loss as to what is the full range of counter-cyclical measures

available to a small open economy like Ireland, which may wish to offset the impact of a very low interest rate at a time when very high growth is being experienced. This is a matter that Members should examine in the future.

The most important aspect of the reports, apart from confirming what many Members knew already, was that we have been on the right road since then.

I apologise but I must conclude because I am feeling unwell.

Senator Shane Ross: This is a different type of banking debate because of the publication of these reports, which I welcome. I also regret to some extent that the reports almost inevitably are used in a kind of blame game between the Government and the Opposition. I do not refer to the Minister of State's contribution, which was not so much like that. Inevitably, however, what happens here is that Members pick the parts of such reports that are good for them. Members tend to lose sight of the facts, context and balance contained in such reports. It is a pity that these reports, which I welcome, have been used for some quite sophisticated spinning. It is a pity that the Government sat on them for ten days as I cannot discern any reason this was necessary, except to digest them and then use them for its own purposes. Perhaps the Government feared the reports more than it needed to and therefore wished to gain a presentational advantage over the Opposition, which of course intended to use them against the Government.

I attended the committee meetings, both today and last Friday, and the question everyone is taking from this report is who is to blame. This has moved on to not only asking who is to blame but whether the Government is to blame and the debate now is centred on this question and on the Taoiseach's position. I acknowledge this is an important element of what must be debated.

Because the Government seized the report for ten days and then spun it so strongly last Wednesday by taking all three radio channels to put the Taoiseach's point of view, we tend to lose sight of the fact that if we are playing the blame game, the principal culprits are the bankers. There is no doubt whatsoever about that. The ultimate responsibility for all that went wrong certainly does reside with the Government but in the past week I have noticed that the emphasis has moved very strongly into who gets blamed in the political arena and the bankers have very cleverly kept their heads down. One has not heard a banker talking about this report at all on the media and they have left people in Leinster House to squabble among themselves about whether the Government or the Taoiseach is to blame. Those are important matters, but they tend to lose sight of the fact that the principal culprits probably lie elsewhere. That is not to remove responsibility from the Government because it has ultimate responsibility but when we are debating the matter we should refocus to some extent on those people who were the principal players in this unpleasant drama which has been going on for many years. In that sense, the reports need a certain amount of decoding.

In the past two days I was very struck by the nimble way both Professor Honohan and Herr Regling and his colleague, Mr. Watson, managed to duck to a large extent the sort of political minefields which were being set for them by every question posed. That was an important element in what was going on. However, what they did say goes against me. They would disagree with some of the things I have said. When they were attributing blame, they said that looking backwards, most of it was home grown, some of it was global and then they distributed the home grown blame among the bankers, regulators and the Government.

However, it is only fair to say that they seem to have drawn a line between what happened prior to approximately 30 September 2008 and what happened after that date. Prior to that

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date they said that everything that was done by the major players, namely, the Government, the regulator and the banks was wrong. It was a mistake, a conspiracy. All sorts of other pejorative terms were used. However, they said the Government's crisis management was carried out rather well. That is really saying the Government created a complete and utter mess but when it came to dealing with the crisis it was repaired reasonably well in the emergency or fire brigade sense. Both Professor Honohan and Messrs. Regling and Watson were fairly approving of areas such as NAMA which I personally do not feel committed to at all, in fact I am fairly critical of it. They were fairly approving of the bank guarantee and they did say things about what has happened since then which would be unpalatable to the Opposition and music to the ears of the Government. They said, and it is only fair to acknowledge it, that the management of the economy since that date has been the best in Europe. So there is some cheer for the Government out of these reports.

I hasten to add a word of warning: just because they say it does not mean it is right. There is the most extraordinary acceptance of what those three gentlemen say, which is quite revealing. Everyone who has read these reports present it as though they are the Bible. Everyone debating them in this House, the committee and in the other House — from what I have heard today — are saying Professor Honohan says this, that is it. It is now Canon Law or whatever else we used to believe in in this country. They are saying when Regling and Watson say this, that is it, they are right. If they say you are to blame then you are to blame. If they say this is the way forward then it is therefore the way forward.

I have found an extraordinary acceptance of what they say and a reluctance to challenge these three gentlemen which is very odd because there are elements in the reports and in what they said which are pretty staggering. Several politicians who were not necessarily trying to score political points, and rarely try to do so, asked them about the Department of Finance. Deputy Burton from the Labour Party rather colourfully described them as the ghosts in the report. When they were asked about the Department of Finance all three of them seemed to run for cover. That is quite odd because most people's understanding of the Department of Finance is that it is the most powerful Department in the State, that in many cases it is far more powerful than the Minister for Finance not just because it is permanent but because it is the fount of all the information and that it has overall statutory and supervisory powers over the regulator. It has a major influence on the Minister and to a large extent it writes the budgets and the financial laws of this country and, traditionally, spins its own agenda in a way which could be interpreted as dangerous but is certainly potent. For those two reports to say they are not going to tackle that particular problem and for the gentlemen when faced with a certain amount of questioning about it not to be willing to take on the Department of Finance is somewhat alarming.

The Department of Finance is coming under increasing scrutiny. Certain people who are ex-employees are now beginning to write things about it. The Department needs to be challenged, questioned, interrogated and investigated with exactly the same rigour as has been applied to the banks, the bankers, the regulators and the politicians. Throughout this entire saga it became evident how the individual mandarins and civil servants, their way of promotion, the influence they have, how they operate and interact with the Central Bank is a dark and mysterious area. I was rather surprised this morning when Professor Honohan just as an aside said the Central Bank communicates a bit with the Department of Finance but it is independent of it. He said, by the way, that if the Department wants to change a bit in the Central Bank's annual report that he would not make an issue of it. I did not know and I do not know whether the Minister knew that the Department of Finance has an input into the Central Bank's annual report. Where else does it have that sort of influence on other areas of the State that it can control

information in that way? I do not say it is good or bad, but we ought to know about it and it ought to be investigated. Those individuals ought to have warned what was going on earlier.

It is not just a matter of economists, which is always the emphasis of what people say, namely, that there are no economists in the Department and no experts. There are powerful people in the Department who have influence on the Central Bank and the regulator. The Secretary General of the Department of Finance always became Governor of the Central Bank up to the appointment of Professor Honohan. That is at least a symbol of the connection between them and how they are joined at the hip. That area must be subject to the same investigation. The Department of Finance was not mentioned among the terms of reference for the next report. Neither did Regling and Watson list it among the matters that should be subject to further investigation. What we need to find out is whether there are hidden hands controlling or allowing things to happen which we do not know about. The responsibility of that Department is equally important to the other organisations we found to be culpable.

Senator Quinn attended today's meeting and he said something which was similar to an interesting point mentioned by Professor Honohan. He should let me know if I am misquoting him. Following these reports, he referred to the importance of questioning the need for the next report that is due to be carried out. As the Minister of State, Deputy Mansergh, and everyone else in this House is aware, these two reports were meant to be preliminary reports.

Senator Mary M. White: Scoping reports.

Senator Shane Ross: It is what they call "scoping"; however, I do not know what that means.

Senator Mary M. White: Just looking into it slightly.

Senator Shane Ross: They were meant to be preliminary reports, blazing a trail for the next one. Professor Honohan said he was not sure there was an awful lot left to investigate. I would be interested in hearing the Minister of State's response to that remark. Professor Honohan was really saying we had got to the bottom of the problem by analysing it. I do not really agree with that because one of the extraordinary points about the reports is that at no stage do they name names. I do not believe there is a single name therein.

In his report Professor Honohan is very coy when he mentions the strong political connections among certain powerful individuals in Irish Nationwide Building Society and Anglo Irish Bank. He almost goes the whole way towards naming them. However, we all know who he is talking about. There is reluctance to name anybody in the reports. The public needs and has a right to know, not because it is involved in some vengeance session. It has a right to know who was doing what and how much power was in the hands of the bankers in question. It will not be good enough to state what went wrong with the structures. We know what went wrong; I wrote a book about it and could have told one about it six months ago. I did not need Professor Honohan or anybody else to tell me.

It is important that we delve a little deeper into what happened and the information on how various transactions took place and the systems and individuals who were at fault in respect thereof. We are entitled to know because the people in question were incredibly well paid. Some were paid millions every year. Mr. David Drumm of Anglo Irish Bank took away €4.8 million in his last year in office. We are entitled to know whether individuals such as him were doing a proper job and whether they were to blame. We are entitled to know what was occurring to the point of full transparency. With regard to the Central Bank and Financial Regulator, it was not good enough to say there had been system faults.

The Government needs to consider an issue on which the reports did not touch. One of the problems is the reports' terms of reference. Nobody has been able to explain to me or anybody

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else why, in the name of God, they do not cover the period beyond 28 September 2008. Thank God, several of them go beyond their terms of reference and have traced events that happened a little beyond 28 September 2008.

As the Governor of the Central Bank said this morning, in order to ensure many of these events do not happen again, we should be able to examine the means of appointment — for instance, the appointment of the new directors, not just those of the nationalised bank, Anglo Irish Bank, but also those of Allied Irish Banks and Bank of Ireland, who are to be appointed by the Government. We should ask whether it is right that the Regulator and the Central Bank should have political appointees on their boards.

The issue of political appointees is a delicate one. It is one many others and I have tackled in this House for many years. I do not approve of the way appointments are made, as political appointees are abused. Favourites of the Government in power are appointed because they are favourites of political parties. We must decide whether this system is in the interests of the nation and whether it is to blame. There are people, whom I will not name, appointed to the boards of all the banks who are patently not competent to be there. They are there because they have an allegiance to a political party. This game is still being played, even in this utterly fragile, precarious economic position. The banks are fragile and the nationalised bank, Anglo Irish Bank, is already becoming a plaything of politicians, particularly on the board. That we could allow this to happen not only to Anglo Irish Banks, as is occurring, but also to the Central Bank and the new Financial Regulator is intolerable.

There is no indication whatsoever from the Government and in the report that the abuse to which I refer will be brought to an end. God help us if we do not bring it to an end. I warn the Minister of State that if we continue down this road, circumstances will get worse, not better. If the individuals concerned — I am not referring solely to Fianna Fáil — are prepared to do what they are doing now when the institutions are in such a precarious situation, they will abuse the system like hell when the banks are in a slightly more stable position. I appeal to the Minister to put in place structures, whereby those appointed by him or his colleagues will be subject to Oireachtas scrutiny in order that we can determine whether they are suitable.

Senator Dan Boyle: These are two very sobering reports. I use the word “sobering” in its widest sense because the reports describe the behaviour of financial institutions which acted as bartenders at a free bar that lasted for at least a decade. The resulting hangover is one for which the country is now paying the price. That said, the two reports are open and honest in their assessment of what has happened and give indications as to where the Oireachtas needs to go to obtain further answers in getting to the bottom of what has been an unacceptable part of Irish economic history. I refer, in particular, to the behaviour of the financial institutions concerned.

The reports, when first mooted, were thought to be part of a process that would not result in the truth. That is how they were portrayed by many in opposition. Their presentation to the Minister for Finance 15 days ago, their consideration by the Cabinet, their publication for the public without any editing and their being discussed in the House are part of an open process. I would like there to be more openness towards that process, as there have been many snide remarks and much in-built cynicism that have led to a narrative that I do not believe to be true. My party is part of a Government which has been committed to getting to the bottom of the issues the reports describe.

The ongoing process will be informed by the publication of the reports and the debate in the Oireachtas. This is the first debate on them in the Oireachtas. The other House has not had the opportunity to have such a debate. We should be making a greater attempt to consider

the issues at hand. The Oireachtas Joint Committee on Finance and the Public Service, of which several Senators and I are members, had an opportunity last Friday to discuss the content of the reports with Mr. Regling and Mr. Watson and today with Professor Honohan. These two meetings are part of a process that will lead us eventually to defining the terms of reference for a commission of inquiry and, I hope, the production of final reports as we try to put the events described in the existing reports behind us.

I heard some of the renewed criticisms being made. I accept some of them but not fully. There is no doubt that all the actors involved, particularly the State agencies, the Financial Regulator, the Central Bank and the Department of Finance, should be open to scrutiny. This scrutiny should be close and proper questions must be asked to seek the information needed to ensure clarity and public confidence in financial regulation and financial institutions.

There is a need for a process that is as public as possible. Professor Honohan advocated a model similar to the US Congressional model, whereby most inquiries are held in public but where elements are held in private. He gave his personal impression when he said that public elements of an inquiry are important in discovering the rationale and motivation, particularly with regard to policy issues, but they are not necessarily the best way to get to the truth. The important aspect of any inquiry assembled in future is that we seek the truth, identify and act on it and ensure it is exposed to full scrutiny. I am confident it can be done and that the appropriate balance between the public and private elements of a commission of inquiry can be achieved.

I asked Mr. Regling how he would define the balance between public and private at last Friday's meeting of the finance committee. I suggested the role of public bodies in particular, that is, the Department of Finance, the Financial Regulator and the Central Bank, given that they are public bodies and acting on behalf of the public, should be exposed to questioning and scrutiny in public session. I do not believe that is an impossible standard to attain. There are other issues relating to how the financial institutions have acted, to what extent there has been commercial security or secrecy behind whatever dealings exist, the minutes of board meetings and how they have acted, where the truth might be better ascertained in private session. Again, this appears to be a standard that applies not only in the US Congress model but also in the UK parliamentary model. I hope the terms of reference when agreed will get that balance right.

The questions about the Department of Finance are legitimate. There is no doubt that we have been well served by our public service. The Department of Finance has been *primus inter pares* of the Government Departments since the foundation of the State. However, the culture of the Department has informed the situation in which we now find ourselves. That it should be above or beyond particular scrutiny is not something I or my party can accept. The issue is finding the appropriate mechanism that would allow this to happen. The difficulty I envisage is that, under the Constitution and the Ministers and Secretaries Act, defining the difference between the political role of the Minister and the administrative role of the Department in asking the necessary questions is where we will have the hardest time framing terms of reference that will work.

However, as I said at today's meeting of the finance committee with Professor Honohan, the administrative role of the Department of Finance in itself helps to define ongoing and long-term policy. When there is a change of Government or a new element is added to the Government or there is a new direction in Government policy, one often sees the Department of Finance, quite rightly, seek to stymie new policy initiatives due to ongoing, long-standing policy which the Department has helped define. Given that such a culture exists and that personnel are informed by such a culture, I believe that is open to scrutiny. With regard to the balance of where advice

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is given to a Minister and the anonymity of such advice given by civil servants, these are proper standards to uphold.

In a democratic society there must be accountability, whether that is given by somebody in an administrative role, an appointed role or whether it is accepted and acted upon by somebody in a political role. If we have a process of inquiry that investigates only a certain proportion of what went wrong and how, it will be a flawed process. This will be difficult for many people to accept, particularly those who give good service in the public service but if we are to proceed from here and achieve public confidence, which has been badly dented by the events of the last two to three years, we must put those types of standards in place. We must have a level of inquiry which means that nobody is beyond reproach, everybody is accountable for their actions and the State learns from the experience.

These two reports are an excellent first step in helping us to get there. I am confident we will achieve it. It would be helpful if all Members of these Houses, in considering these reports, and particularly the actions of the finance committee help fill in the missing pieces. We must do so if we are to have financial institutions which the State will not again have to step in and rescue.

Senator Paschal Donohoe: I welcome the Minister. I will focus on three different areas. First, I wish to pick up on a point that has been made several times today and, indeed, was introduced by Senator Mary White this morning.

A Chathairligh, is there a sound coming from this microphone? I had this problem this morning. I will move to another seat. It is a distracting enough day without having this type of interference.

Senator Paul Coghlan: They might think the Senator is louder than he is.

Senator Paschal Donohoe: I will focus on the point that has been made about the Department of Finance, the culture within the Department and the effect it might have had on the decisions that were made. I have two reactions to that. First, I note that some people have responded with a degree of worry or surprise to the fact the Department of Finance has an all-pervasive role in the decisions that are made relating to the allocation of money. That should not be a surprise. The Department is meant to be the guarantor of how money is allocated to Government Departments and how requests for additional money are analysed or met.

Second, with regard to the culture that might exist there, I am concerned about the trend that appears to be developing in terms of where responsibility sits. One of the main determinants, if not the most important, in affecting the culture within the public service or within members of a particular Department will be the Minister and the political culture and philosophy within the country at a particular time. If mistakes were made within the Department of Finance, or in any other State bodies, one of the main factors in driving that was the culture that existed in the country and in the Government at the time regarding what was going to be examined and, indeed, what was not going to be examined. It is, and must be, the responsibility of a Minister to set the direction for his or her Department and to give direction regarding the culture, atmosphere and the things he or she wants to be examined and not examined.

While I have no doubt that the process that is about to begin will uncover administrative mistakes and the difficulties that occurred, ultimately it was not public servants who decided there would be two, three or four people responsible for overseeing the stability of multi-billion euro banks. That decision was made by a Government. I recall that a previous Minister for Finance at one time refused a request for additional resources to be given to the Financial

Regulator. The Government makes the decision on where resources will be given and where energy will be committed. While I believe it is appropriate to examine the role of public servants in this, I believe it only up to a point. Public servants are not elected by the people to fulfil a role; the Minister is. The Minister determines the culture of the Department and where resources will be allocated. In an effort to analyse what went wrong, I do not wish us to find ourselves in a situation where we undermine the role of political decision making and culpability in what happened.

I am focusing my comments mainly on the report from Mr. Regling and Mr. Watson and my second point relates to their comments on fiscal policy in the State in the run-up to this crisis. This is an area in which I have a particular interest because I am preparing a report for the European affairs committee on the Stability and Growth Pact and how it might change over time. There is a need to change how we evaluate budgetary performance not only in this country but across Europe. To illustrate that point, I will quote from the report:

For a long time, Ireland's overall fiscal policy was considered to be exemplary because the country achieved fiscal surpluses every year from the mid-1990s to 2006... However, the nominal budget figures mask an underlying deterioration in the fiscal situation after 1999.

It is vital, in order to learn from this mistake, to change how we evaluate budgetary performance both here and across the European Union.

Currently, most of the focus is on what is the nominal budget performance and what is the total surplus or deficit at any one point in time. It appears obvious that, in order to ensure the fiscal mistakes are not made again, we must look at two potential changes. The first one we must look at is whether we move to a situation where we track the structural budget deficit of either our country or the Europe Union. The second change we should look at is focusing on the cyclically adjusted budget performance at any one point in time. These figures may be a little more difficult to manage, they may be a little more difficult to track, but they do come out of EUROSTAT, the organisation that is meant to be evaluating impartially budgetary performance across all European countries. While this might be a dry area, at the end of the day one's political performance and how one evaluates how one is doing for one's country is heavily influenced by how one tracks and evaluates it. It is crucial that we change how we evaluate the fiscal performance of a country to learn from the mistake that this Government and others were congratulating themselves on a budgetary performance year after year at a time our budgetary performance was deteriorating. We must learn from that lesson to ensure this does not happen again.

This is a lesson that has salience well beyond what is happening in Ireland. In the discussions that are taking place on how we will change the Stability and Growth Pact, this is the direction that must be looked at. Otherwise, we will find ourselves again in a situation where at a time when a Government wants to spend money to deal with a recession it will be breaching the conditions of the Stability and Growth Pact or when it wants to cut back on spending because the economy is doing well, that will not be rewarded in terms of how it is measured.

Another point touched on in this report is corporate governance. This has been touched on on many occasions in discussions that have taken place here, but I found this report made a point that needs to be emphasised in this discussion. On the regulation of banks, they state there were specific and serious breaches of basic governance principles concerning identifiable transactions that went beyond any question of poor credit assessment. I want to make the point that the issues and the breakdowns we are dealing with are questions, not only of the breakdown of corporate governance but which are of a more serious level on morality, where we had people, either within the regulator's office or the banks, who not only were not in line with

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the light touch regulation in place at the time but were going a step beyond that. There were clearly decisions being made here that involved the concealment of information from the regulator. There were clearly decisions made where banks were looking to produce reports that did not reflect the reality of what was happening on their own balance sheets. This is something that must be considered just as much as any issues of mere corporate governance.

Senator Mary M. White: I welcome the reports for their frank and direct analysis and conclusions. They reflect some of the down sides of being a small country where decision makers and influencers meet and know each other.

The Honohan report refers to an “excessively deferential and accommodating” regulatory approach and comments that “rocking the boat” and being prepared to “spoil the party” would have required a particularly strong sense of the independent role of a central bank.

The question for the future is how can we ensure the regulatory system does its job without fear or favour. We are fortunate that the two key persons appointed by the Minister, Deputy Brian Lenihan, Professor Honohan, Governor of the Central Bank, and Matthew Elderfield, Financial Regulator, have the independence of mind and action to act without fear in the public interest. They have demonstrated that clearly so far.

The members of the board of the Central Bank have their responsibilities, namely to ensure their approach is fully supportive and not afraid to rock the boat when required, but the main responsibility for the crisis, according to the Honohan report, was the abandonment by the banks of their own rules for managing credit risks in embracing property development and their decision to follow Anglo Irish Bank in winning such business. They tolerated a gradual lowering of lending standards including decisions to authorise numerous exceptions to stated policies. Where were the boards of the banks during all this? How can we ensure this does not happen again?

The two reports under consideration are to guide the work of the proposed commission of investigation into the banking crisis, which is to complete its work in six months.

With all due respect to the Department of Finance officials here with the Minister of State at the Department of Finance, Deputy Mansergh, who are too young to have been around when all of this was going on anyway, I would like to see the role of the Department of Finance officials during the lead up to September 2008 included. The Department of Finance officials saw on a monthly basis the growing share of property related taxes in the tax take. They saw the explosive growth of private sector lending by the banks and the build up of private sector credit.

I support the recent comments of the former head of the NTMA and one of the most respected public servants, Dr. Somers, that the Department of Finance’s role should be included in the examination by the commission. I want to draw on comments made by Dr. Somers in the Friday interview in *The Irish Times* of 11 December 1998. It is an extensive interview and it underlines the pervasive power of the Department of Finance, but I pick out two points. It states:

Getting the Department of Finance to change tack is extremely difficult, he says [this from an ex-assistant secretary in the Department of Finance]. He recalls advice given to him when he was entering the Department: “If you try to change things there are three possible results. The first is they may improve, the second they may disimprove... or there may be no change. So you only have a one in three chance of success — don’t change anything.”

In 1998, Dr. Somers, in the interview, stated:

That is why there are no fly-overs, no underpasses or decent roads. The Department of Finance simply blocks everything.

I stated that myself on the Order of Business this morning about many of the social changes such as the introduction of free child care for every child aged three years. I put down the lack of money going into education and into social areas, and the lack of free breast screening for women over 65, to decisions made by the Department of Finance.

In that extensive interview in 1998, Dr. Somers argues that the Republic needs to move to a US-type environment where the top echelons of the Civil Service change with the Administration to effect modernisation. As we have had so few changes in Administrations, that is really not relevant but he did go on to suggest that the Civil Service could at least incorporate recent changes to the British model where talented people from the business community come in for a number of years. Dr. Somers stated:

You need to be an extremely determined and stubborn politician to get any change through Finance.

We are saying the politician must be extremely strong and self-confident. I have my personal experience, when I tried to get the removal of stamp duty on intellectual property with then Minister, Deputy McCreevy, and I had to engage with the civil servants from the Department of Finance. I had a meeting with the Minister and two of the most senior civil servants and I raised the matter that it was contradictory if people who came up with a new intellectual development would have to pay tax on it. I was getting nowhere with the Department officials and I asked the Minister why did the UK get rid of this tax, and it was over and done with.

I apologise to the two civil servants in the Chamber at present. This is not personal. Senator Ross has stated everyone has been praising the two reports etc. We are indebted to Dr. Somers who, in a public interview on Saturday, suggested the Department of Finance should be covered by the commission. The Minister of State, Deputy Mansergh, has been a participant in and observer of the Department during the years under various Taoisigh. He probably knows more about the relationship with the Department than anyone in this or the Lower House. He saw it as a model adviser and public service, for which I thank him.

Senator David Norris: Speaking as a reasonably intelligent but unqualified observer of financial matters, there seems to be nothing new in either report. They confirm what any person with average intelligence could have said and rightly did say. They are not explosive in terms of their intellectual content, irrespective of the political reception with which they were met.

Reference, some charming, has been made to the staff of the Department of Finance. Some time ago I asked in the House about the qualifications of departmental personnel because I had heard on a radio programme that only a small proportion had an advanced qualification in economics. I understood this to be the position, more or less. I do not intend my comments to be taken personally, but for many years I raised the point that the Department of Finance's forecasts were routinely off the mark. I wondered why and was concerned long before this crisis.

Today we again heard about the importance of the word "systemic". Time and again I stated in the House my concern in this regard. We seem to be propping up the system, yet a more radical examination of it is required, not only domestically but also internationally. We are witnessing the biggest, the most massive, transfer of money from the poor into the pockets of the rich that I have known in my time in politics. With the assistance of the corrupt banks and rating agencies, the State is behaving as a type of inverted Robin Hood, that is, stealing from

[Senator David Norris.]

the poor to satisfy the exorbitant appetites of the wealthy and people of considerable financial influence.

Will the Minister of State ask for an investigation into a matter I raised on the Adjournment some weeks ago when I was able to demonstrate incontrovertibly that there had been significant violations of liquidity regulations by one of the principal banks in the International Financial Services Centre? This went unremarked upon in the Irish media until it was taken up by *Süddeutsche Zeitung*, then by the *Sunday Business Post* and *The Irish Times* in a page-long article that, while not referring to the Seanad, relied heavily on the information I had brought to the attention of the House.

The Minister of State's speech was interesting in that it clearly was spin. There was virtually nothing in it, except for a watered down account of the two reports. That he referred to Government involvement only once was interesting. He stated: "While Ireland's banking crisis has been influenced by global events, it is clear that in various ways bank practices and governance failings, taken together with Government policies and weak financial supervision, seriously exacerbated Ireland's credit and property boom," etc. In only one sentence did he state the Government had been found to be complicit.

The Minister of State also said: "The Government fully endorses the conclusions of the preliminary reports prepared by the Governor of the Central Bank and Messrs Regling and Watson." Let us consider what Messrs Regling and Watson wrote. Page 5 of the executive summary reads: "Ireland's banking crisis bears the clear imprint of global influences, yet it was in crucial ways 'home-made'". The Government accepts the latter point. On the Order of Business, Senator Harris suggested the entire matter was an economic difficulty that Ireland encountered like a contagion. He suggested it was similar to isolating our analysis of fascism in the 1930s to only one country while ignoring the fact that other countries such as Italy, Spain and Germany were also involved in fascism. This was disingenuous in the light of what was stated in the report.

Regarding the conditions, we had a boom and unprecedented access to cross-border funding, that is, borrowing internationally at comparatively low interest rates. The banks should have been able to resist this temptation. Surely they should have known better than to do what they did, which was to borrow significantly in international markets and punt it on property speculation, while ignoring and trampling on their ordinary customers. Now that they have been broken by the casino, they revert to the ordinary citizens of Ireland and put their hands in their pockets.

The intrusion of foreign banks resulted in extra competition, but the banks did not examine where that was leading them. I have spoken about competition many times in the House. It is not the unrelieved benefit that some believe it to be. Here is another classic example of how competition was used against the interests of ordinary people. When we hit a snag, the market forces that were supposed to prevail were suspended in the interests of the big boys.

The same page of the report reads: "There was scope to mitigate the risks of a boom-bust cycle". It did not happen. Instead, "official policies and banking practices in some cases added fuel to the fire". This is a clear identification of Government policy as being largely to blame. The Government "should have done more to dampen the powerful monetary and liquidity impulses that were stimulating the economy". Instead, "the pattern of tax cuts left revenues increasingly fragile, since they were dependent on taxes driven by the property sector". Once again, we return to the issue of the property bubble. The report reads: "Ireland was also unusual in having tax deductibility for mortgages, and significant and distortive subsidies". This is not exactly stating there was a large international crisis and that we were somehow caught

in the tempest. It states there were clear and detectable domestic problems that should have been indicated. The report uses the wonderful phrase, “This was a plain vanilla property bubble”. Apparently, the Government was immune to the taste of plain vanilla bubbles and did not notice that what it was sucking was toxic.

I am delighted to see the rating agencies mentioned on page 16 of the report. As I have stated time and again, they are a collection of crooks — Standard & Poor’s, Fitch and Moody. Fitch is a wonderful name. These were the people who helped to manufacture some of the toxic products and were paid for rating them. How is that for a lark? I wish we could all get away with this. It is a form of corruption, but what are we doing about it? I am glad that, two years after I raised the issue, it will be examined to determine whether something should be done. Why should ordinary people pay for this dubious practice?

The report cites one or two aspects as being good, for example, the creation of the National Pensions Reserve Fund. I agree. The report reads: “Errors of judgement in bank management and governance contributed centrally to Ireland’s financial crisis”. They most certainly did; therefore, let us examine a few of them.

I would like a few more minutes, if that is possible. No one else seems to be that interested.

Acting Chairman (Senator Diarmuid Wilson): Unfortunately, it is not possible.

Senator David Norris: During May and June 2007 an inspection of commercial property lending in Bank A found that 28% of the loans had breached the bank’s credit policy, but inspectors reported no high priority issues. Nearly one third of the bank’s loans were rotten, yet they were not worried about them. In December 2007 inspectors were told that lenders had no concerns about the ability of five large commercial property borrowers at five institutions to meet future repayments. Professor Honohan’s report reads: “This optimism subsequently proved in all cases to have been mistaken”. This would be laughable were the situation not so desperately serious.

I raise the question of the scope of the report.

On page 13 — unlucky for some — the Governor of the Central Bank, Professor Honohan, a distinguished man from my own university, states: “While the final guarantee decision was taken under pressure of events, the meetings on the night of 29/30 September 2008 were the culmination of an intensive series of interagency meetings that had been taking place, and had greatly intensified...”. He goes on, and I hope the Minister will comment in his reply, to state: “Despite the relative absence of detailed written records, it is clear that the meetings during this period, which involved substantial legal work, made the authorities increasingly better prepared to act as the weeks unfolded”.

This was a series of crisis meetings on the most extraordinary night in the financial history of this State and apparently there are no written records of it. Why? If legal opinion was sought and gained, where are the legal records? We are entitled to know, and I want that night to be investigated.

Senator John Paul Phelan: Hear, hear.

Senator David Norris: It is extraordinary that we should not investigate this and that there should be an absence of documentation about the most serious decisions for the financial future of this country that were ever taken.

Senator John Paul Phelan: Hear, hear.

Senator David Norris: It is just unbelievable, and the Minister continues to state there might be some slight Government involvement but it was really all about the macro-economic situation——

Senator Paul Coghlan: The Senator may have two minutes of my time if it would help him.

Senator David Norris: I thank Senator Coghlan very much.

Acting Chairman (Senator Diarmuid Wilson): He has already had two minutes.

Senator David Norris: ——leaving senior management in place while providing an open-ended guarantee to two institutions which it should have been clear were on the road to insolvency. We have two banks going bust, and we leave the people responsible for it in the saddle. It is absolutely unbelievable that this should happen and for that reason I am astonished there is such a lack of electricity in the air here tonight because it seems extraordinary that we should tolerate this situation.

There is so much spin. I do not want spin on either side. I do not like political footballs being played but for the Government to pretend it was not its fault or to say it was caught in a tsunami is wrong. No, Minister, it was not a tsunami. It was man-made and the two reports, which the Minister said in his own speech the Government accepts fully, condemn the Government's policies in all but a few tiny and insignificant areas.

Senator Paul Coghlan: This is such a vast subject one would not know where to begin. I welcome both reports, which were referred to as scoping exercises. They were very useful and are a precursor to the commission of investigation, which we look forward to, and the terms of reference, as proposed in draft, to which the Minister has referred. I am glad to note they will come before the Houses and we will have a chance to have a debate on them here in due course.

What do we say about this issue? Banking went to blazes. There was a lack of regulatory control and a total breakdown in the system. A bonus culture drove the situation. Bank management were irresponsible. There was reckless lending and, in regard to a number of institutions, it almost looked like they had gone from prudential banking to allowing the cowboys take control, but more of that anon. That led to the over-reliance on construction and the property sector and as one report referred to, all the eggs were in one basket, which caused the explosion and led to the property bubble. Much of that was driven by the bonus culture in the banks, which was most unfortunate.

Professor Honohan, in his report, makes clear early on the failure of the role of the Central Bank and Financial Services Authority of Ireland in regard to banking practice and Government policy, which he said both clearly played a central role in contributing to the crisis.

At the top of their executive summary Messrs. Regling and Watson referred to the "imprint of global influences, yet it was in crucial ways "home-made". They went on to refer to the "fostered expectations of a continued rise in living standards and in asset values" as though it could never cease. They mentioned the other factors and deeper roots in relation to the "strong and pervasive preference in Irish society for property as an asset, and the fact that Ireland had never experienced a property crash". By God we have one now that will take us some years from which to recover. They further stated: "Fiscal policy, bank governance and financial supervision left the economy vulnerable to a deep crisis" and so on. They state that "external and domestic commentators were critical of fiscal policy", which was ignored, and the European Commission had warned in its own way also, which was overlooked or not given sufficient credence by our own people in power. In any event, the weakness of supervision contrasted

sharply with the experience in other countries. It got out of hand, but the “official policies and bank governance failings” exacerbated our property crisis.

I hope that when the commission of investigation is set up we will learn more following from that. It is intended that it will complete its work within six months. That is very welcome, given the length of time it has taken to deal with some of the other matters of this country.

There are main players and peripheral players in this but I hope in the case of Irish Nationwide and Anglo Irish Bank we will hear more about the way those institutions failed and caused the problems but every banking institution in its own way was seriously at fault. There was no prudential banking. Banking had moved to something else.

Another subject that has been touched on in the debate is the question of the Department of Finance. As Senator Ross and perhaps others said — Senator Norris may have implied it also if he did not say it explicitly — there is a need for an examination of the question of interaction which has turned out to be a mysterious one in terms of the input the Department of Finance had into Central Bank reports. The strong suggestion is that this input was not helpful but the more serious point is that no one ever knew about it until now. That matter must be examined.

The Governor of the Central Bank, Professor Honohan, a welcome appointee who appears to be a breath of fresh air in that he is doing a very good job so far, is the first such appointment to break the tradition of a senior official of the Department of Finance being appointed Governor of the Central Bank.

I greatly welcome these scoping reports as a precursor to the terms of reference for the commission of investigation, to whose work we look forward.

On the comprehensive failure of bank management to maintain safe and sound banking practices, that comes back to the boards of the banks and the directors of all of those financial institutions who share a huge responsibility. They have been culpable. Some excellent public interest directors have been appointed by the Government, which is welcome. I hope with the increased equity in the systemic institutions — I refer mainly to AIB and Bank of Ireland — there will be more exemplary appointments which might be subject to Oireachtas scrutiny if it could be arranged, as has already been suggested by a previous speaker. However, we are seriously remiss in that directors and senior management remain in place in some of these institutions. I realise there is a total change in the nationalised institution and perhaps in one other but in the ones with the large branch network it is my understanding there are directors in place who were there at the sign-off of all of the reckless lending.

While I accept we had to save the systemic institutions, it is not responsible of us, considering so much taxpayers’ money is at stake, to allow some of those responsible for reckless lending policies remain in place. Despite lending practices having been centralised and improved, the auditors who signed off on these banks’ accounts are still in place. Is it intended to allow these auditors continue in place? Did the Minister of State say earlier there will be an opportunity in a further debate to discuss the draft terms of reference for the proposed commission of investigation into the banking crisis?

Senator John Paul Phelan: I welcome the Minister of State, Deputy Conor Lenihan.

Will there be a further debate on the terms of reference for the inquiry into banking? There are conflicting stories and lines emanating from the Government as to the terms of reference and what periods would be considered by the proposed commission. Senator Norris was spot on earlier when he spoke about the need to ensure other items such as the events surrounding the night of the bank guarantee and its legislation come under an inquiry’s investigation.

[Senator John Paul Phelan.]

I join other Senators in commending Professor Honohan, Mr. Regling and Mr. Watson for their work and their frankness and brevity in their remarkable reports. Quite often, Members are presented with reports from the Central Bank and other bodies which are lengthy documents. The three authors of these reports have brought their thoughts and analysis together in a very succinct fashion.

Professor Honohan indicated in his analysis that the Government's budgetary and macro-economic policy, poor regulation and lax bank lending standards were the three key components to our current banking difficulties. The political reality is that two of those particular areas directly relate to the responsibility of the Government.

I concur with Senator Coghlan that lax banking and lending standards were commonplace in the past several years. As the banks proceeded to outbid one another for business, their standards of lending and the thresholds people had to meet dropped continuously. There was a belief among some in the media, and also in the Oireachtas, that banks that did not get on the property development train were somehow missing out. It was believed their shareholders were missing out while they were running the risk of being taken over by more aggressive institutions. As a result, many of our financial institutions dropped their standards, some to an alarming degree.

It is remarkable that when one considers the different levels of State recapitalisation in different institutions, we do not seem to be much nearer a position in which the banks will be able to restart lending consistently to small businesses and individuals. We need a credit flow again in the economy with sensible lending.

It was not surprising the Taoiseach decided the best form of defence was attack, announcing his position before the reports were published. I must confess I was surprised at the level of direct criticism of the Government's policy contained in these reports. Over the past several years, we have had to listen to a litany from Government spokespersons on how our banking difficulties were the result of international factors and a global banking problem. For once and for all, these two reports blow that argument out of the water.

They lay not all but a large portion of the blame on the policies enacted by the Government since the late 1990s. The decision the Government made, following the recommendations of a committee headed by a future Progressive Democrats Tánaiste, Michael McDowell, to break up the regulatory function of the Central Bank has had serious implications as the level of regulation which ensued was not satisfactory. Politically, we must ensure the taxpayer and those who elect us are never exposed again to the levels of recapitalisation they are currently having to put into our financial institutions. I support whatever course of action is required to ensure this does not occur again.

Professor Honohan's report commented on the "unduly deferential approach to the banking industry". Our colleague Senator Ross has written extensively on the same issue. Professor Honohan also stated "intrusive demands from line staff could be and were set aside after direct representations were made to senior regulators". This is a shocking indictment of how work was carried out in the Financial Regulator's office.

Mr. Regling and Mr. Watson go into more detail of the Irish dimension to our banking crisis, dealing with the fiscal policies put in place by the Government. I was previously the finance spokesperson for the Opposition for five years and one difficulty I had with the formulation of fiscal policy is that there was no consultation with the Opposition. The system and process by which the budget is put together must be radically transformed. Understandably and correctly, there is talk of lending an EU dimension to the way our budgets are formed and some oversight from a European Union level. It is shocking that there is no oversight in this House or the

other House. Statements and comments are made after the Minister delivers his budgetary speech but that is the extent of our involvement in fiscal policy which is completely unacceptable.

Minister of State at the Department of Communications, Energy and Natural Resources (Deputy Conor Lenihan): I thank Senators for their many and considered contributions. I will attempt to respond to as many of the points raised by Senators as possible. Last January, the Minister for Finance announced the Government's decision to set up the two reviews and a statutory commission of inquiry to complete an expert, authoritative and structured examination of the financial crisis and its impact in Ireland, to understand where the crisis in the banking system originated and to assess whether lessons could be learned to inform our future management of the sector, its institutions and their management and the management of risk and stability within the regulatory and Government systems.

It is important to understand that the reports we have received in recent days have attributed the reasons to a wide diversity of causes. It is not simply the case that government, whether domestic or international, was the key contributor to the financial, banking and economic collapse that occurred and the very deep and sharp recession we are now experiencing in Ireland, as are many other countries throughout the globe. It is not simply the case that the Governments in Ireland, the United States, France, Germany or wherever one cares to mention, are the cause of the collapse. There are many different explanations for the collapse, which is what makes it unique, distinct and different from all previous reverses in economic history.

We are experiencing something that has not been experienced to the same intensity since the formidable depression of the 1920s. It has had many different causes but essentially one can see features common to many other banking crises whether in Sweden or the Far East in the 1990s and so on.

There are only a handful of countries in the globe to which one could point which managed to avoid some of the difficulties we and the majority of countries in the global trading system experienced with regard to banking. It is noteworthy that Canada managed to avoid the difficulties mainly because it had an earlier banking crisis which it managed to learn the lessons from and it put in place robust systems of regulation and control in terms of credit and lending activity generally. It is interesting to proceed on a journey whereby we can make our financial systems safer. There is a populist outcry of the Opposition from time to time which holds that it is all the Government's fault.

Senator John Paul Phelan: No one has said that here.

Acting Chairman (Senator Michael McCarthy): The Minister of State without interruption, please.

Deputy Conor Lenihan: It is not all the Government's fault. We had a different experience in Ireland which was compounded by our reliance on the receipts from the residential and commercial property boom. I am not shy about apologising for that. Our Government, which I have supported since 1997, was a factor and did contribute to that by failing to read the danger signals. I accept that. Some people maintain we are loth or unable to accept the criticism but we accept it. The Taoiseach, many members of the Government and I have openly and honestly stated we accept the criticisms for what they are worth.

Senator John Paul Phelan: What will the punishment be?

Deputy Conor Lenihan: Mistakes were made. The only thing I say by way of mitigation is that the same mistakes were made in many other countries throughout the world, including the powerhouse democracy and market economy of the world, the United States of America.

Senator John Paul Phelan: Not to the same extent as in Ireland.

Senator Diarmuid Wilson: The Opposition wanted more.

Acting Chairman (Senator Michael McCarthy): The Minister of State without interruption, please.

Deputy Conor Lenihan: Let us be clear. I do not blame the United States but as the largest economy in the world it must take first responsibility for the causes of the collapse in its banking sector. It has been the trigger for all the other difficulties——

Senator John Paul Phelan: We are back to Lehman's again.

Deputy Conor Lenihan: ——including those in Europe and in the Far East economies. If people wish to fly in the face of the facts, we should let them, but it is determined and clear that the US economy accounts for 35% of global or world GDP, a vast stake to have in global business, economic and capital movements. Let us consider the origins of capital which drive global economic activity at a world level. Upwards of 50% and 60% of the capital flows of the world economy are under United States control.

We have come through an extraordinary period of intensified year on year globalisation since the early 1990s involving Brazil, India, Russia and China, which are new emergent economies. This is balancing the virtually unipolar nature and profile of the world economy. Only for those emerging countries we would be in a far worse place because their strong growth has acted as a powerful countervailing force to USA dominance of the market economy at a global level.

Few people warned about it. As I recall it, the Bank for International Settlements based in Basel was one of the few institutions that warned of asset price bubbles and their potentially difficult and dangerous consequences to the world economy some years prior to this collapse. Its report was published and it was given a one-day, front page outing in the *Financial Times* and, as I recall, then it was swiftly ignored and passed on. People assumed the gnomes in Zurich would take a conservative view and that particular institution is perceived, somewhat like our Central Bank, to be a conservative voice, always uttering the statutory warning to hold on, to be careful, to watch out and so on. That occurred here to a certain extent as well. In fairness, the Bank for International Settlements warned about this asset price bubble, which is not a remarkable thing. Such bubbles have happened since time immemorial. When one pumps liquidity or cheap credit into a financial system, there are consequences in terms of underlying asset prices and their real value. Inflation occurs in their value and this took place throughout the globe from the United States to Ireland to China or anywhere one cares to mention.

There are particular lessons we must learn in terms of how we control and patrol our banking system, the bankers who lend and, increasingly, how we patrol and impose surveillance on the development of our property market in future. Some Members, although not especially the last speaker, on the left in this House and the other House seem to believe one can control property prices while at the same time having virtually no rezoning for residential purposes. This was one of the causes of the spike in property prices in Ireland. When some parties are in charge of a local authority, they decide they are against all rezoning in a blanket fashion, therefore causing a constraint.

Senator John Paul Phelan: Is the Minister of State referring to the Green Party?

Deputy Conor Lenihan: In such cases when economic growth occurs there is a shortage of available zoned land to build houses. This has happened and there are parties which seek to have it both ways. Such parties seek more houses but not more rezoning for such houses. Thankfully, because of the surplus of property this will not be a problem in the short to medium term but it may be a problem in the Dublin area because if the Dublin area returns to growth it will require upwards of 6,000 houses per year and whatever surplus homes and units exist in the capital may be exhausted very quickly. This is something on which we must keep a close eye.

It is clear that, apart from cheap credit, there were new instruments, including hedge fund or derivative instruments and toxic loans which were wrapped up or bundled. These were made up of loans to people who simply could not afford to repay. This mainly took place in the United States and the only person who warned about these derivative and hedging instruments was the great Warren Buffet. He was one of the few people to indicate publicly that he would not be investing in funds or companies where such instruments were a strong feature. He stated that he simply did not understand them and when he spoke to people involved in them, it turned out they did not understand them either. There is a double failure to appreciate fully the level of risk of the toxic loans. American institutions, governmental in the main, assisted people to buy such homes. There was a poor appreciation of the risk these banks carried with these particular loans and an under-appreciation or knowledge of the instruments which were at the cutting edge of finance. Only a handful of mathematical people understood the risk being carried and many of those were, somewhat blissfully, prepared to ignore the risks involved because they were making a great deal of money from them. There are two issues involved. We must enhance the lending behaviour of banks. It is noticeable that in the boom years, not only in Ireland but also elsewhere, many who came to prominence in large global banks were not from the lending or credit side of the banks. It is noticeable that sales, marketing and sometimes technical people came to the fore. IT professionals became chief executive officers of banks. This is a bad practice which developed because of the expansion of global capital markets and the growth of huge investment banks. People with no great or in-depth appreciation of underlying lending principles came to the fore.

The previous speaker spoke about the situation in Ireland and how the property market had gone way out of control in value terms. There are two interesting aspects to this. At a domestic level, Anglo Irish Bank fuelled the competition to lend money to persons involved in speculative property ventures of one kind or another. It acted as a pressure point, pressurising AIB initially and then Bank of Ireland, although perhaps not to the same extent as AIB, to relax their traditional conservatism in property lending. A certain frenzied competition began which I argue was principally started by Anglo Irish Bank. From 2005 onwards, all of the Irish banking institutions faced further frenzied competition following the arrival of British banks in the Irish market. They added more liquidity and credit to the equation and increased the spiral of lending so much so that British and non-Irish banks leave a legacy of property or construction-related loans to a value of €40 billion. God only knows at what price they will be discounted, but, thankfully, that is not a bill which will arrive on the mat of Irish taxpayers because they are not substantially covered by the guarantee scheme.

We have come through a difficult period. When people look at these issues, they are inclined to look at the mistakes made and apportion blame. Blame has been apportioned. The reports produced in the past week or two are very important because they provide a proper explanation and analysis of where the blame should lie, how we can learn the lessons, correct what we have done wrong and close the gaps in regulation.

[Deputy Conor Lenihan.]

I hope the new Financial Regulator, Mr. Elderfield, will take a much more proactive role in the appointment of directors to banking institutions. There is a need for a much more robust system of character analysis and interrogation in appointing key personnel at director level and perhaps even below that level in lending institutions. I am confident Mr. Elderfield will take that approach. He has already begun a process, whereby people to be appointed to important positions where the level of lending can cause a systemic risk will be tracked and deemed to be appropriate for appointment to such important positions.

Towards the end of the boom, some banks, globally as well as domestically, belatedly appointed chief risk officers. We need to elevate the position of chief risk officer in a bank and I am not echoing the views of the Minister for Finance when I say this. Currently, they do not enjoy huge power of suasion over the other members of the bank team. The role needs to be elevated in the same way that in a previous period banks elevated the role of internal audit. The officer who performs the internal risk function within a bank needs to be elevated strongly. The people concerned should have appropriate qualifications to be able to police their own executive no matter what intense growth is being experienced by the bank. That is an important point for the future.

It is important that we note that Professor Honohan, in particular, acknowledges in his report the value of introducing the bank guarantee scheme which has been a successful instrument. In terms of claiming credit, I do not claim the Government came up with the idea all by itself. In fact, it was because of the scrupulous and studious examination of what had happened elsewhere, Sweden in particular, that we were able to arrive at this vehicle, through which we were able to save our banking system from collapse.

We need to look at the more positive things that have happened and the way we have managed the crisis. It is to the credit not only of the Government but also of the people that we have managed to adjust our lifestyles and give appropriate responses. Many other countries in Europe have experienced the terrible situation we have faced, including rising unemployment, the collapse of banks and economic and financial chaos, but have not responded as well. There have been riots in some countries, while in others the banking system collapsed——

Senator John Paul Phelan: Is it to the credit of the Government that we have adjusted our lifestyles?

Deputy Conor Lenihan: ——but that has not happened in Ireland.

Senator John Paul Phelan: That is hardly creditworthy.

Deputy Conor Lenihan: What is not creditworthy?

Senator John Paul Phelan: That it is to the credit of the Government that we have adjusted our lifestyles.

Acting Chairman (Senator Michael McCarthy): The Minister of State to continue without interruption.

Deputy Conor Lenihan: Sorry. I did not hear what the Senator said.

Senator John Paul Phelan: The Minister of State should think about what he is saying when he says it is to the credit of the Government that we have adjusted our lifestyles.

Senator Diarmuid Wilson: If we had listened to the Opposition, we would have had to make more adjustments and spend more money.

Acting Chairman (Senator Michael McCarthy): The Minister of State to continue without interruption.

Deputy Conor Lenihan: Let us be clear. Everybody, from Ministers, Deputies and Senators to ordinary members of the public, has made major adjustments because of the suddenness of the the recession.

Senator Diarmuid Wilson: We would have had to make more adjustments if the Opposition had got its way because it wanted to spend more money.

Acting Chairman (Senator Michael McCarthy): The Senator is interrupting the Minister of State.

Senator Diarmuid Wilson: For the information of the Chair, I include the Labour Party in that.

Deputy Conor Lenihan: I am not saying it is up to the Government to make such adjustments, although it has had to do so. Ordinary people have taken pay cuts, had to make adjustments to their lifestyles and managed to survive and come through. However, many have not and are now unemployed, but, thankfully, the level has peaked. We have turned the corner and now have an opportunity to look forward to a recovery from recession. Despite some of the more negative sounds coming from commentators and some on the left, we will come out of recession more quickly than many other countries in the European Union and the eurozone precisely because we front-loaded the difficult decisions we had to take. We took the pain early and are well positioned to make the most of recovery when it occurs. The belief is it has already happened. If one talks to Enterprise Ireland and many of the State agencies, they will report that recovery is well under way. We have seen a jump in consumer confidence. NCB's most recent manufacturing survey indicates three months of growth and expansion in the manufacturing sector. A most interesting fact is that it indicates not only expansion in the level of manufacturing activity but also an expansion in the level of employment generated in the manufacturing sector. That is highly unusual because normally in recessions economists will say manufacturing activity can recover but that there is a long gap between expansion of the level of activity and the creation of employment associated with that expansion. In Ireland it appears to be happening more quickly than it has traditionally occurred elsewhere. That is another sign of our robustness and ability to compete in international markets.

That is one of the big lessons we have learned. By seeking international and global markets in recent years, the economy has become much more competitive. Some 90% of what we produce is for export. Ireland's economy is the fourth most open in the world. This country is also considered to be the second most entrepreneurial in the European Union and the fourth in the OECD. It is highly competitive. What we gained in the good years we retain in terms of competitiveness, our ability to export and actual wealth.

Senator John Paul Phelan: We fell off the radar in terms of our competitiveness.

Acting Chairman (Senator Michael McCarthy): The Minister of State should now conclude.

Deputy Conor Lenihan: There are a few other——

Senator John Paul Phelan: The Minister of State should stop while he is ahead.

Deputy Conor Lenihan: I will not.

Acting Chairman (Senator Michael McCarthy): As the Minister of State's time is almost up, Senator Phelan should not interrupt him.

Senator Diarmuid Wilson: I am glad Senator Phelan accepts that the Minister of State is ahead.

Deputy Conor Lenihan: How much time do I have left?

Acting Chairman (Senator Michael McCarthy): The Minister of State has one minute left.

Deputy Conor Lenihan: I thank Senators for their contributions. Senator Phelan is backing a particular horse in the race to find a successor to Deputy Kenny as leader of Fine Gael. Given that he has hitched his wagon to an economist, we can expect a more realistic and proper analysis——

Senator John Paul Phelan: Can I seek the protection of the Chair?

Deputy Conor Lenihan: ——of the Government's performance and the economy generally. The Opposition can and often does throw things out just to cause problems for the Government. However, we are going through a difficult time and we need honest and open commentary from the Opposition based on facts and not simple political assertion to achieve a result. The person the Senator is backing has a more modulated view than others in the Opposition ranks. I appreciate that while Deputy Bruton has a robust go, he does not always take it to the nth degree and make gravity defying statements like other Opposition Deputies. I wish him well. It is not for me to take a position on that contest but Deputy Kenny also has a contribution to make. Let the best man win. Whatever happens within Fine Gael, I hope it leads to a better and more appropriate debate on economic issues, which are at the heart of our country's survival and the prosperity of our people.

Acting Chairman (Senator Michael McCarthy): When is it proposed to sit again?

Senator Diarmuid Wilson: At 10.30 a.m. tomorrow.

Adjournment Matter

Departmental Staff

Senator Jerry Buttimer: I thank the Cathaoirleach for permission to raise this matter.

I listened to the Minister of State's wisdom about the Fine Gael approach to the economy. It is a pity the Government parties did not listen to us over the past ten years because if they did, we would not be where we are today.

Acting Chairman (Senator Michael McCarthy): Will the Senator address the Adjournment matter?

Senator Jerry Buttimer: I will. Perhaps that would be much safer.

I refer to the issue of the contracts of librarians employed in the junior certificate school programme, JCSP, in DEIS schools not only in Cork but throughout the country. Last week, the Tánaiste and Minister for Education and Skills made an insensitive announcement in the national broadcast and print media that school librarian positions would be terminated even

though the librarians themselves had not been informed. It is important in the context of the debate on educational disadvantage to raise the issue in the Seanad, to express opposition and to expose the decision for what it is, which is a short-sighted attack on those who are disadvantaged and vulnerable.

We can never allow a situation where the poor man's university is closed in our schools. If we value education, reading and learning and resourcing our schools, libraries must be retained. Forcing school libraries to shut is a short-sighted and poor approach to education. Many schools are participating in the Demonstration Library project, which is a valuable resource for our schools. I will quote a school librarian who says "I work in [he names the school] where our JCSP library is the heartbeat of the school itself and this is not an exaggeration". Many students who have found the discipline and routine of mainstream education difficult and overwhelming and who find it a struggle to keep going have found that funding for the leaving certificate applied programme has been cut. Libraries and librarians offer them a resource and an environment in which they can access books and other educational resources to allow their curiosity and intellect to be developed in a non-competitive and non-threatening way, contrary to mainstream classrooms and examinations. Librarians teach these students who are challenged the discipline of study and the quest for learning and libraries provide support for schools to address literacy issues.

The librarian who wrote to me states, "I taught English to our weakest stream using the library as a classroom and I do not believe it would have been possible to engage these students for six hours per week if we were in an ordinary classroom environment". I am a former teacher and the library is a haven and a harbour for students before school begins and at lunchtime. They can read books and learn to explore the written word. The library provides discipline and support for homework and study. It is an important vehicle for education delivery not only in weak schools but in all schools. The issue affects 25 to 30 schools in disadvantaged areas. Does the Minister of State think it is right, given the current budgetary constraints, that our most vulnerable should be attacked by the Government?

Minister of State at the Department of Education and Skills (Deputy Conor Lenihan): I thank the Senator. His strong motivation and his background as a teacher have given him a great appreciation of educational values. I welcome the debate on the issue. I also welcome the opportunity, on behalf of my colleague, the Tánaiste and Minister for Education and Skills, to outline the position regarding this matter.

The JCSP has operated in schools nationally since 1996 as an intervention at junior cycle for students who, for a variety of reasons, have experienced difficulties in school and hence are considered to be at risk of leaving school early. The programme is founded on the premise that all young people can be successful at school. It provides a curriculum framework, which assists schools and individual teachers in adopting a student-centred approach to education. Students are given enhanced opportunities to engage with the curriculum and to achieve success at school through a system of profiling of achievement. It covers a broad range of personal and social skills, as well as academic achievements.

Since poor levels of literacy and numeracy have been widely acknowledged as factors that hinder student progress the programme sees the implementation of literacy and numeracy strategies as fundamental. The JCSP support service works with schools to employ classroom strategies to develop students' literacy and numeracy skills and to encourage them to adopt a whole-school approach to literacy and numeracy. This is facilitated by providing teachers with ongoing professional development on cross-curricular approaches to literacy and numeracy as well by the provision of resources annually to support the implementation of specific initiatives in both areas.

[Deputy Conor Lenihan.]

Currently the JCSP is offered in 240 schools, 184 of which are DEIS schools, providing support for 9,000 students. More than €3.07 million has been spent on this over the last three years with €1 million being allocated for 2010. The Demonstration Library pilot project, which forms part of the JCSP literacy initiative, provides professionally staffed libraries for JCSP schools. The project was announced as a pilot in 2001, with libraries being set up in 11 JCSP schools in 2002. The Department, through the JCSP support service, provides the support necessary for schools to set up and equip high quality school libraries, develop structured library based strategies with ICT support for JCSP students with literacy difficulties, employ professionally qualified school librarians who work with the teaching staff to develop and implement the JCSP literacy strategy and who are supported by the project librarian and the JCSP support service, and participate in an ongoing monitoring and evaluation process which is a major part of the project. To date, 30 schools have been included in the project, 25 of which are DEIS schools.

The librarians in many of these schools are employed on fixed term contracts and one further school has a vacancy. The remaining schools are either staffed by librarians redeployed from the library service or those with contracts not falling for renewal.

The House will be aware of the Government decision to implement a recruitment and promotion moratorium in the public sector to facilitate a permanent, structural reduction in the numbers of staff serving in the public sector to contribute significant and ongoing savings to the Exchequer. The terms of this moratorium require that no public service post, however arising, may be filled by recruitment, promotion, nor payment of an allowance for the performance of duties at a higher grade. As the Tánaiste has set out, this decision also applies to temporary appointments on a fixed-term basis and to the renewal of such contracts. Exemptions from the moratorium are, in the context of the public finances, a matter for serious deliberation. The Tánaiste is, however, working together with her colleague, the Minister for Finance, in relation to those aspects of the moratorium having a particular impact in the education sector. The issue of librarians employed in the demonstration library pilot project is one such issue and I am pleased to confirm that, having regard to the factors discussed above, it has been decided to retain the library staff for the coming school year.

I thank the Senator for allowing me the opportunity to set out the position on this matter. I repeat how much we value his contribution, given that he comes from a teaching background.

Senator Jerry Buttimer: I am very pleased with the Minister of State's third last sentence to the effect that they are being retained. I hope that it will be put on a more substantive footing than just the one-year contract, but I very much welcome the decision to retain the position as it is. Go raibh maith agat.

The Seanad adjourned at 6.45 p.m. until 10.30 a.m. on Wednesday, 16 June 2010.