Patrick Honohan: "Garret's Europe and Ours"

Address by Mr Patrick Honohan, Governor of the Central Bank of Ireland, to the UCD Garret FitzGerald Spring School, Dublin, 8 February 2013.

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When Brian Nolan very kindly invited me to speak at this second UCD Garret FitzGerald Spring School with its title "Ireland in Europe after 40 Years" I thought back to the first occasions I met Garret in a European context, and then other memories flooded back of my knowledge of Garret and Europe over a forty year period: overlapping with but starting just a bit earlier than the 40 years in the Spring School title. I knew that I would want to talk about Garret's Europe, and ours.

One way of narrating Garret's life is as a sequence of rail, sea and air timetables as if he was determined to verify that the trains, ships and planes really did work on time. European travel was, of course, at the heart of this, and his ministerial role in the 1970s also resulted in his horizons broadening to the Middle East and Africa where he travelled for Europe.

But Garret's family links with European travel go back much further. Indeed, his parents spent the first two years of married life in France – or to be more precise, in Brittany. And even further back than that. I would also like to be able to tell the story of the cow that, in an even earlier era, was transported to Marseille to ensure availability of good Irish milk during one of Garret's ancestor's French holidays. I heard scraps of this story from him a few times, but I could never quite figure out exactly who the ancestor was, or even whether the cow went by rail or sea. Perhaps Garret didn't know. Anyway, details will have to await further research.

Whatever about the traveling dairy, it is clear that, long before the era of Ryanair, or even before the era of direct car ferry services to the Continent, the family in which Garret grew up moved in a world of easy interaction with France, and other countries on the European mainland. Of course his parents' story also has important episodes in Britain also, but, despite the dominant influence of Britain and America on Ireland's view of the rest of the world before membership of the EEC, it would be a mistake to neglect the strong links with the Continent enjoyed by many middle and upper middle class Irish families before the Second World War.

Garret being Garret, though, we do have to acknowledge a combination of intellectual competitiveness and fascination with the structures of government, whether republican or monarchic, that led him to becoming an indefatigable student of European history and administration. At the age of 8 (in 1934), he tells us in his autobiography, he was once wrong-footed by finding himself less well-informed than his schoolmates about the recent assassination in Marseille (again) of King Alexander of Yugoslavia and French Foreign Minister Barthou. The idea that some other children – girls at that – would know more about such a matter was the cause of sufficient annoyance to make sure it never happened again. As anyone who has been on the receiving end of that kind of one-upmanship from Garret can testify (I recall the humiliation of mixing up in his presence the dates of Cardinals Richelieu and Mazarin) we can be fairly sure that he was not often caught out again.

Then again, Garret's UCD degree was in French (first class honours), History (first class honours) and Spanish (second class honours – that was, of course, before grade inflation). For the rest of his life, Garret's favourite holiday destination was France.

This gave him a strong foundation for what he would in later years always regard as the best and most enjoyable part of his career, namely the years in which he was Minister of External Affairs.

In this role, Garret was in at the ground floor in Ireland's membership in the European Community.

He was Minister for External Affairs almost from the word go in Ireland's EEC membership.

He used his knowledge of French (and Spanish), but also his formidable consciousness of the history of European governments, to work for an evolution of what it is not politically correct to call the supranational view of Europe over the intergovernmental.

He liked to talk about incidents where he acted to restrain the exercise of national powers through the Council (often these stories featured British ministers, and I will mention an example in a minute).

He advanced Ireland's interests by advancing a coherent vision of European integration in which the public good was best served by an evolution that promoted European decision making structures (where needed) over intergovernmental bargaining in which the short-term or narrow interests of the largest and strongest states might prevail.

His quick ability to size up the interaction between interpersonal relationships and international deal making made him both a popular and effective participant in European political circumstances. Take for instance, his story of a deadlocked 1973 Helsinki conference, where he suddenly found himself become the acting chair, because others had left for the airport. Would another have so quickly sized-up and seized the opportunity suddenly suggested by a Russian official and pulled-off a diplomatic coup by quickly ramming through a compromise draft before the remaining delegates could regroup and find reason to quibble?

Again, probably few of his peers could have talked down British Foreign Secretary Roy Hattersley so effectively and without generating rancour as Garret did in 1975, when Ireland held the Presidency and went ahead of normal practice in pre-negotiating a deal with the Arab League in the hope and correct expectation that he could use force of personality to bounce it through the Council. "It's 53 years too late", he observed, when Hattersley complained about the unorthodox procedure, "for a British minister to be telling a member of the Irish government in Dublin Castle what he could or could not do".

Garret's approach to dealing in and with Europe was not based on a laboured or academic understanding of negotiation techniques or game theory. Practice and intuition led theory. To the extent that he formed theories about such things, they were arrived at inductively and through experience.

Thus I remember, as a callow undergraduate, challenging him on what is essentially a straightforward application of the theory of externalities. Europe, he seemed to argue in a panel contribution to a meeting organised by the Irish Council of the Economic Movement (the only such meeting I attended, I hasten to say), Europe could ensure efficiencies in collective European endeavours by achieving a central control of costs, and proceeded to illustrate with some characteristically complicated example about a group of people ordering in a restaurant. "Surely, the cocky undergraduate voice from the audience protested, if the total meal bill is going to be shared, then each diner will order to optional extra prawn cocktail." This overly theoretical consideration was not the sort of thing that he would allow to stand in the way of his advocacy.

In fact, of course, it is a free-rider problem of this type that has almost felled monetary cooperation in Europe, and which presents, and is understood to present, the most serious challenge to a quick and successful resolution of the financial crisis of the euro area. I will come back to this topic later, but first permit me to develop some other dimensions along which there has been both change and continuity between the first years of Garret's encounter with official Europe and our own time today.

Size and collegiality of Europe

When Ireland first held the Presidency of the European Council, the number of member states was nine. During the current presidency, the number is 27 with a 28th – Croatia –

already attending as an observer in anticipation of its imminent accession. If Garret was struck by the already large attendance at Council meetings in the 1970s, how much more would he be bemused to attend one today. Every 6 months, the Finance Ministers and Central Bank Governors meet in what is ludicrously termed an Informal Ecofin meeting in the Presidency Country. Such a meeting is scheduled for Dublin Castle in April. Informality is hard to achieve, however, with 70 participants around the table, surrounded by around 150 accompanying officials in the room. And that is not all. At a recent such meeting which I attended, the chair announced that, because of the sensitivity of one of the agenda items, the discussion on that item would not be relayed to the overflow room. It is, of course, still possible to be on first-name terms with one's counterparts in all 27 countries. But the potential for a truly inclusive single conversation must certainly be impaired relative to what is possible with 9 countries. The interests of each of eight interlocutor countries can be sized-up and considered together; it is a different matter with 27.

One change in the atmosphere of EU decision making as between Garret's time and ours may be a creeping monoculture in debate. In the 1970s issues arose that triggered quite different political alignments. It wasn't always the case that the same usual suspects appeared as coalition partners on issue after issue. Even where key Irish economic interests were at stake, the alignments depended on what sector the discussion was about. Two of the biggest economic negotiations in which Garret was involved were on Fisheries Policy and the Regional Fund. The fisheries issue was something inherited from the era of the six, and as such pitted Ireland, UK and Denmark, keen to establish privileges for national fishermen against the others, who claimed incumbency.

The Regional Fund issue centred around how much this would be weighted towards the lower income countries and as such had Ireland and Italy on one side, with UK, Denmark and France, for example, on the other. And there were many other issues which generated quite different combinations of natural alliances. I expect that scholars have explored in detail the way in which the potential for log-rolling could be and was exploited in those days as the many disparate issues offered the potential for wider consensus building and deal-making. The ease with which a cordial and collegial atmosphere could be maintained may have been greater then, even though we know of many spectacular rows. (Some of these rows of course related to the famous exceptionalism of the UK's relationship with Europe; but that too may have helped cement relations among the others).

The larger the number of member countries and the more the big structural issues have been settled in an ever more comprehensive Acquis Communautaire, arguably the shallower the and fewer the remaining big structural issues that come up for debate leaving more and more of the divergences of interest coming down to straightforward issues of what, in Garret's earlier days, was called £sd. The increasing coincidence in recent years, of the dividing line between the advocates and critics of the major policy issues and the broad and persistent fosse between habitual borrowers and structural lenders, has coloured decision-making in the European Union to a large extent. This has created a different environment for decision-making than existed in the 1970s.

Weighted voting is of course one of the important mechanisms for facilitating decision-making in such a large group and Garret was an early enthusiast for finding ways of avoiding veto situations and employing majority and qualified majority decision rules, which are much more widely applicable today.[1][1] The veto has not vanished, though.

Nowadays, then, the onset of the financial crisis and the protracted economic slow-down seems to have widened the long-lasting and recurrent divide between creditor and debtor countries. The identity of which are creditors and which debtors has not changed much of the

1 The ECB Governing Council still works mostly on a simple one-member one vote system.

decades, but the dominance of these grand financial and cross-country redistributional issues has surely increased in our time.

Arguing for Ireland and Europe

Thanks not only to Garret of course but to numerous persistent politicians and dedicated public servants, Ireland did relatively well in the various negotiations of the early years. And of course it started with the great advantage that the Common Agricultural Policy, with its high price approach to protecting the farm sector in Europe, was (on balance) hugely advantageous to Ireland.

But in addition, Irish negotiators were quick to understand the dynamics of European integration and saw that development of the European Union through from the 70s to the 90s was something that could be good for all, but especially good for Ireland, and so it was. Garret wrote "The benefits accruing to Ireland from EC membership were immense – far greater in relation to the size of the economy than was the case for any other member state. This was true in relation to the impact on agriculture and the net flow of Structural Funds, but most of all in relation to the expansion of exports". It would be hard to disagree.

Already by 1990, though the tendency for Irish political debate to take Europe for granted, and to focus more and more on the scale of net fiscal transfers to Ireland as the measure and goal of Ireland's diplomatic interaction with European partners degraded the quality of public discourse in Ireland about Europe and the stridency of Irish demands began, in Garret's view, to grate on some other European leaders. Though Garret was firing on all cylinders when, for example, he worked to ensure a formula for Regional Fund allocations that would not channel so much of the money back to the core countries, the Béal Bocht was nowhere in his approach.

Too little, in his view, was done, to explain to the Irish electorate the benefits of the Union and in particular the traps and false directions that had been avoided in the design of successive Treaty amendments (a favourite rhetorical device this of Garret's "if it hadn't been for the Treaty of X – or the budget of Y – things would have been completely different and much worse!")

Given the change in the size and character of discussions today, the challenge for those wishing to further national interests in Europe is thus rather different to what it used to be. A naïve approach confined to a battle over the redistribution of economic resources risks being, not even a zero sum game, but destructive all around. Now, more than ever, policymakers need to look to the collective prosperity of the Union as a whole, as well as to the individual components of which it is formed.

Centralisation or intergovernmentalism

This, of course, was already the modus operandi of Garret and the early Irish negotiators in Europe. And in Garret's case it took the form of a consistent advocacy of the supranational executive mechanisms of the EEC, in particular the Commission, over the intergovernmental, as represented most evidently in the Council of Ministers and then in the European Council. Convinced that the Commission has generally been guided in its preparation of legislation by a sense of the European common good, Garret wrote in 2002 that he could not "in fact recall any case where … Ireland's interests have been seriously prejudiced by proposals brought forward by the Commission, and [he could] recall many cases where our interests have in fact been safeguarded by that body". From the start, for Garret, preventing the emergence of a Directoire of the largest countries dominating agenda setting and decisions for the Union was a firm objective. Given the recent fashion in some quarters of denigrating the elaboration of the structures of Europe, and of calling for an unwinding back to intergovernmentalism, it is worth bearing Garret's perspective in mind.

It was, for Garret, not just a question of restraining the largest countries. There was also the consideration that Summit meetings are not technically efficient or safe as ways of reaching complex decisions. In the 1980s, the European Council, Garret wrote, could be “chaotic and ultimately very dangerous”.

To be sure, some early initiatives aiming at strong central decisions were impractical and unnecessary, and were sensibly rolled back whether in the name of subsidiarity or the principle of mutual recognition. (This is often referred to as the principle of Cassis de Dijon – a key component not only of European trade law, but also of one of Garret’s favourite pre-dinner drinks, Kir Royale). The First Banking Directive, for example, hoped to resolve disputes on bank licensing by establishing the principle that each member state’s bank regulation system was to be taken as good enough to allow cross-border banking into any member state from any other.

Somewhat ironically, it was at Maastricht that subsidiarity was enshrined in the Treaty. Ironically, because Maastricht also, of course, introduced that most centralising of Treaty structure, the single currency, rather over-grandly dubbed Economic and Monetary Union.

While Maastricht retained the national central banks, and built a structure where the Governors of the national central banks would have a structural majority in the main decision making bodies of the European Central Bank, the idea of moving from numerous state currencies to a single non-state currency, tightly constrained to remain at a distance from national governments, was clearly a move in the opposite direction.

Garret had a lot to say about everything, but (in relative terms) surprisingly little to say about the single currency. Actually I think that money and banking was not a topic that interested him very much. Consistent with his general view about centralised institutions he did, however, at the time of the Maastricht Treaty foresee the euro as something which would restrain the dominance of the largest economy. (Perhaps this reminds us that not all of his long-term forecasts have worked out as expected.) Back in the 1970s of course, Ireland was part of another currency union, that with Britain, from which we imported the rapid inflation (peaking at well over 20 per cent) of those years. (It was characteristic of Garret’s approach to such matters that, fearing an excessive surge in wages through price indexation in 1975, he engineered a liberalisation of potato imports for a few months, which was sufficient to keep consumer prices below a particularly relevant threshold for the inflation rate; this was the sort of measure in which he delighted!)

But perhaps that is the biggest difference of all between Garret’s Europe and ours: the preoccupation with money, banking and debt. I do not want today to elaborate on what went right and what has gone wrong with the Eurosystem. Nor do I want to discuss now more specifically what went wrong with the operation of government and financial supervision policies against the novel background of a single currency regime. Clearly some countries continued on traditional policy paths – in terms of fiscal policies and cost competitiveness – that were in fact unsustainable without the safety valve of devaluation. Others saw their overly-deregulated banking systems succumb to the temptations of easy private finance in the explosion of debt of the 2000s. And the system as a whole lacked the mechanisms to make a quick recovery when the financial crisis, sparked off in the United States, swept through the common currency area, shaking it to its foundations.

What I do want to do is consider some aspects of the path ahead for the financial aspects of the union. Despite the fact that some strident voices argue for a retreat into intergovernmentalism in finance, the Union has firmly determined on greater centralisation as a foundation for the way forward. Not only the Commission, but the Council, the Parliament and the ECB have, through their Presidents, called for a closer union including on fiscal and growth policies, as well as the Banking Union, all underpinned by a stronger political union. Each of these dimensions calls for greater centralisation and therefore a *relative* reduction in the role of distributed decision making or, specifically, intergovernmentalism. But will it all work. How big are the potential benefits and can it all be made workable?

To answer those questions would take me well beyond my competence. Instead let me confine myself to some observations about the Banking Union and in particular the single supervisory mechanism.

Banking Union

As we work at breakneck speed to construct what is undoubtedly a most ambitious project, European Banking Union, it is good to stop from time to time and take stock of what we are hoping to achieve and what might stand in the way of success. As I have already pinned my flag to the mast as an enthusiastic supporter of banking union, I may be permitted to dwell a little longer on the pitfalls, with a view to exploring how we can best work around them.

But let us start with the potential, and here I will list four hopes that I have for the project. First, I hope that it will go some distance to removing politics from the enforcement of bank supervision. Second, I hope that it brings emotional detachment to the process of supervision. Third, I hope that it manages to lever the diversity of supervisory experience and aptitude across Europe to provide multiple cross-checks on bank soundness, while not limiting into straitjacket bank behaviour. Fourth, I hope it is effective in breaking the link between sovereign and banks, not only to protect the sovereign but to allow banks to operate effectively and have access to European funding markets on a basis that is not subject to a sovereign risk-add on, but depends only on the bank’s own creditworthiness and standing.

As to pitfalls, let me mention four here also.

First, I hope that it doesn’t get bogged-down in overly complex layering of decision-making structures. Second, I hope that the huge task of transferring knowledge to the centre and building new communications channels between national supervisors and the central team does not result in process overwhelming product in an interim period with the result that some problems remain undetected, hidden by the dust kicked-up by the creation of the new structure. Third, I hope that the decision-making bodies are truly communautaire and not simply an amalgamation of national interests. Fourth, I hope that moving decisions to the centre and away from national authorities in what can be a very sensitive area will not result in divisive clashes between broad European and national interests.

Hopes: removing politics

Politics and banking don’t fit well together but they seem to have a magnetic attraction for one another. Although the most vivid examples here come from developing countries, or from times long gone,

Yet who can doubt that, in some circumstances, the political prominence on the national stage of some bankers can result in implicit pressures to hesitate or second-guess regulatory action. It is, I believe, only a mild over-simplification to say that international experience shows that the best form of regulation for delivering the common good is technocratic and wholly insensitive to national, regional or local politics. That can best be delivered by a regulator who lacks an understanding of, and interest in, such politics – outsiders will often fit this description very well.

Note that the outside (central) regulator still needs to relay on the nose of the local supervisors for the assembly of the relevant information. It is chiefly in making the final decision on regulatory interventions that the need for political distance becomes evident. Indeed, it is not so much in supervision, as in resolution that these issues become decisive – pointing of course to the need to complement to single supervisor with a single resolution authority.

Emotional detachment

Perhaps an even bigger challenge is to creating what I can call emotional detachment between the banking system and the regulator. In contrast to the political issues, which will often relate to isolated firms, what I have in mind here is the problem of the waves of euphoria and over-optimism which have a tendency to sweep through financial systems, often driven by – and driving – property bubbles (and I am not just saying that because of the national experience of Ireland in recent years). If the entire banking system, and the property market gurus, and the beneficiaries of the spin-off economic activity and stock market appreciation all become cheerleaders for the continuation of credit-fuelled bubbles on the ground that "this time it will be different" the regulator may still stand in opposition. All too often, however, the regulator does not sufficiently suffer from professional deformation and a sneaking suspicion that the market may be wrong is weakened or drowned-out by the plausible chorus of boosters to which the local regulator is daily exposed. Here again one can hope that the outsider will bring untarnished to the party the scepticism that is natural for all regulators.

This hope is to be tempered, of course, by the thought that globalisation of ideas and fashions means that booster-ism is not reliably confined by national borders. Indeed the great financial crisis from which we are emerging has been an example of cross-border contagion of booster-ism. Look again at the Irish case, where external assessors of the quality of Irish financial supervision and regulation provided fulsome endorsement as late in the bubble as 2006 certainly alerts us to the fact that the external eye is not a panacea.

Diversity of experience

This hope is more tentative and a bit more speculative. It derives from the observation that supervisory practice differs quite significantly in Europe. No doubt every supervisory agency thinks it does the job better than every other one, but this is of course impossible. It's much like asking men to rank their driving skills – everyone is above average.

To be sure, supervisors have been talking to each other in Europe and internationally for years in the Basel Committee, in Europe's CEBS and now in the EBA. Much has been codified. Yet there is no agreed supervisory manual. The banking union will inevitably result in further moves in that direction: after all, the SSM will itself embody a single methodology. Of course, a single manual does not mean that banks shall be treated in the same way regardless of the macroeconomic context they are working in – as fretted by some – it means that similar risks should be approached with the same tools, and stringency, everywhere in the union.

At the Central Bank of Ireland, we have recently rolled out a nifty computerised tool (called PRISM) for guiding and recording supervisory engagement. We think it provides a great advance especially for dealing in a systematic way with the supervision of financial firms to which an impact factor below the very highest has been applied. Even though we are very happy with this, and think it embodies much of the accumulated experience that has been gained over the years (good and bad) I am sure there are aspects that could benefit from a different approach. It is beyond unlikely that there is any agency has nothing to learn from the others.

But by mixing and cross-referencing the practical experience of many different systems, the combined forces of the supervisory agencies of Europe will surely have the potential to spot and make early detection of novel risks.

The SSM should develop into best practice drawing on the diversity of experience across Europe. Of course we don't want that to ossify: supervisory methods and models should not be rigidly codified, they should evolve, drawing on the disparate experience of all.

Sovereign and banks

My fourth hope relates to an entirely different but well-worn aspect of Banking Union. This relates to breaking the pernicious feedback loop between sovereign and banks. Perhaps I do not have to say too much about this. Though I note that various observers have different interpretations about how this would work. What all can agree upon is that the Irish syndrome cannot be allowed to recur. Features of the Irish case were (i) banks which accumulated vast exposures to the Irish property bubble financed with cross-border wholesale funding; (ii) Government stepping in to guarantee the funding (in ignorance of the hidden exposure to crippling loan-losses); (iii) central bank financing of the outflows that occurred when wholesale markets lost confidence in the guarantor; (iv) the Sovereign having to have recourse to official financing to spread out the cash repayment of the indebtedness accumulated as a result of meeting the loan losses and the bank recapitalisation. Not only do I hope that the Banking Union will be (i) more effective in preventing unsound banking practices on this scale, with interventions that pre-empt a slide into insolvency, but that there will be (ii) a resolution law and institutional arrangements that make bail-out of bank creditors a thing of the past (because of sufficient bail-in-able debt even to cover cases where supervision is insufficient to prevent insolvency); (iii) therefore no risk to the Sovereign from banking weakness; and (iv) where needed, a public financial backstop at European level to top up depleted capital for viable banks who have lost some of their capital.

When it becomes evident that a bank has had made pervasive loan underwriting errors, the market naturally fears the worst, as it can take quite a while for the true extent of the losses to emerge. With no backstop other than the State, this pall of uncertainty has hung over Ireland since the scale of the problem became evident as the initial tranches of loan losses were uncovered during 2010. Only gradually has the Irish Sovereign been recovering the confidence of the market. The process could have been greatly accelerated had there been a backstop mechanism at European level to provide some form of insurance (at expected cost) to absorb the risk of unexpectedly high losses. Bit by bit the necessary components of a European mechanism are being put together to obviate all of these deficiencies. Even if it comes too late to avoid what happened in Ireland, the lessons of the Irish case will have helped protect other European countries in the next wave of crises, however far in the future they may be.

Pitfalls: complex decision-making

Let me be more brief on the pitfalls. One is clearly the challenge of delivering a streamlined, decisive and quick-acting institutional machine, against the background of (i) a legal underpinning (in the Treaty) which means that decision-making structures are being grafted onto a governance structure designed for monetary policy decision-making and not at all for banking supervision; (ii) the need to delegate much of the work, but at the same time maintain close lines of communication and authority between the central supervisory entity and the national supervisors (remembering that by far the largest fraction of supervisory resources will remain in the national agencies for the foreseeable future and (iii) the need to take regulatory actions from the centre which may in some cases require the use of national structures for implementation and enforcement.

Interim period

Setting up the Single Supervisory Mechanism is a major operational challenge. If we contrast the decade taken from the report of the Delors Committee to the start of the third stage of EMU with the breakneck speed with which the Single Supervisory Mechanism is being constructed, it has to be acknowledged that avoiding operational risk in this interim set-up period is an important challenge. Observers of the Nordic banking crises of the late 1980s often observe that it occurred during the bedding-down period of new supervisory mechanisms in that region. But even if we did not have that example before us, we certainly are going through a very complex piece of engineering without being able to remove the fuses.

Work in progress

Creation of a supervisory mechanism is operationally the most demanding element of what is being undertaken, but it does need to be complemented – as has been widely discussed – by a sufficient resolution mechanism and resolution authority. One obvious pitfall then is that, while the SSM is being developed and refined, the other elements of the Banking Union proposal are not brought into operation, but left embryonic.

Communautaire

The ECB has managed, despite the pressures of the crisis, to deliver on its mandate as an agency which delivers on its clear euro-area mandate of price stability for the common currency area as a whole without fragmenting into a mere clearing house for mediating perceived national interests. Can that exercise of – dare I use the term – supranational decision-making be maintained for the single supervisory mechanism? It must be, for if not, then many of the gains I have spoken of above would be lost, and the mechanism become merely a costly overhead, if not in some instances counterproductive. Avoidance of this pitfall will call for decisive leadership and a determination by its governing bodies to be vigilant. The Governing Council will, no doubt, be especially reluctant to see any slippage here.

Regulatory interventions are rarely popular, even when it is the national regulator takes the action. If not well managed, intervention from a centralised regulatory structure in Europe could become vulnerable to a nationalistic backlash orchestrated by bank managers or owners in a way to which national regulators are not subject. This could be particularly so to the extent that the capitalisation backstop is not fully in place with the result that, for example, a call by the single supervisory mechanism for additional capital would result in pressure on the national government. Clearly this is a pitfall that needs to be guarded against by means, for example, of good communication and, of course, completion of all of the envisaged components of the Banking Union.

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It is not that one bank or another failed in Ireland. It was that the whole system went into an ocean of indebtedness well beyond its ability to survive. The two worst-run banks did not just lose all of their capital. They lost almost half of the value of their balance sheets, and their losses have scarred the Irish economy in a way from which it will not fully recover for a long time. We have been painstakingly rebuilding institutional reputation and working hard to ensure that the banks continue and complete the frustratingly time-consuming process of ensuring the repair of the balance sheets of their borrowing customers. The banking system which for which we will surrender the primary responsibility to the SSM will be in much better shape than it was three years ago as we prepared our first estimates of loan loss. Not fixed, to be sure, but on its way. If my hopes for the Banking Union are realised, and the pitfalls avoided, a recurrence in any part of the Banking Union of a disaster as great as these banks brought to Ireland can surely be avoided.