The Psychodynamics of a Dramatic Housing Bubble: Denial and the Case of the Celtic Tiger

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Abstract

This study draws on insights from psychoanalysis and the role of emotions and unconscious fantasy in providing an explanation for the recent Irish residential property bubble, in which all economic actors in Irish society were caught up. Consequently, there were no effective countervailing forces to prevent the housing bubble inflating, or indeed acting to prevent its devastating banking and macroeconomic consequences when it eventually burst. We argue that our findings are important for a number of reasons. First, the need properly to acknowledge, understand and draw lessons from the key role that unconscious fantasy played in the morphology of the Irish residential real estate bubble is underscored by the dramatic impact of such real estate bubbles, as their consequences impact the whole of society. Second, though economists acknowledge the damaging societal consequences of real estate bubbles vis-à-vis other types of economic bubble, their models are incomplete, and inevitably constrained, as they largely ignore the underlying unconscious and dynamic social group processes at work. As a result, bubble recognition and diagnosis are impeded as well as the menu of appropriate policy responses potentially being restricted. Third, we show how the collective denial of all responsibility and the search for scapegoats and assignment of blame rather than acknowledging how all of Irish society became engaged in wishful thinking is currently leading to dysfunctional economic policies with the ostensible purpose of preventing a further housing bubble, but paradoxically leading to just this!

Keywords: psychoanalysis; unconscious phantasy; basic assumption groups; bubble markets, residential real estate; abduction

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"… the boom times are getting even more boomer" (Bertie Ahern, Irish Prime Minister, 1997- 2008)[2]

Introduction

Between January 1994 to early 2007 Irish house prices rose by more than 500% and then collapsed, more than halving over the following 6 years, with the magnitude of the fall second only to that of Japan's in recent history. As a result, unemployment rose from 4½% in mid-2007 to no less than 15% in 2012 and government debt went up by a factor of five over the same period. Abandoned ghost housing estates dotted the Irish landscape. In November 2010 the Irish Government was forced into a €64bn bailout (equivalent to around €20,000 per capita) from the IMF, European Central Bank and European Commission to repay international unsecured lenders in Germany and elsewhere. The origins and magnitude of this bailout can be directly linked to the bursting of this dramatic residential real estate bubble (e.g. Nyberg, 2011).

Despite high profile repeated warnings from mid-2003 onwards from the IMF, OECD, and the Economist, among others, that the Irish residential property market was in a bubble, the Irish government, regulators, economists, bankers, as well as independent commentators, including the Irish media continuously dismissed, sugar-coated, or explained these away. The three officially commissioned reports (Honohan, 2010; Regling and Watson, 2010; Nyberg, 2011) into the origins of this property-driven financial crisis, together with the subsequent Irish Government Commission of Inquiry on the Banking Crisis (Report of the Joint Committee of Inquiry into the Banking Crisis: House of the Oireachtas (Inquiries, Privileges and Procedures) Act, 2013 (2016), only *describe* the events as they unfolded and

[2] Irish Times, 14 July, 2006

apportion blame to all the parties involved and implicitly society at large. Critically, they do not explain *why* everyone seemed first to be caught up in the heady excitement associated with the seemingly inexorable rise in house prices, then refusing to accept the consequential collapse in the housing market despite all evidence to the contrary.

Since the low point in 2013, at the time of writing (end of 2017), residential property price have recovered increasing by no less than 70% nationally (and 87% in the Dublin region) to levels approaching the peak of 2007 with similar warnings of a new housing bubble (e.g. OECD 2015, 2017). In this case, however, the high level of price inflation results directly from low levels of residential property construction (e.g. Kennedy and Stuart, 2016).

Economic models, which are based on homo economicus and rational expectations, find great difficulty in explaining asset pricing bubbles in any meaningful way (e.g. O'Hara, 2008). In fact, many economists even deny they exist (e.g. Fama, 2014), or argue that even if they do there is nothing that can be done so are not worthy of study (Shulman, 2016). In contrast, Shiller (2014:1487) describes how bubbles are essentially emotional events sparking "psychological contagion". Although Pazzaglia et al (2017) emphasise the role played by a common cognitive frame, built on industry rivalry, in driving the Irish banking crisis, their epistemology did not allow the authors to explore the role emotions and emotional contagion may have played in the industry-wide crisis they describe, which, they suggest, is a promising area for future research (p. 24) This paper argues that to explain what drove, and continues to drive, the Irish property market we need explicitly to acknowledge how emotions and unconscious fantasy (phantasy) together with group psychodynamics are an integral part of the socioeconomic processes at work.

Specifically, in contrast to Pazzaglia et al, 2017, who focus on bankers' sensemaking of the banking crisis, we take a broader societal perspective of the underlying property bubble that led to the collapse of the Irish banking system. Stein (2011), takes a psychoanalytic standpoint on the antecedents of the Global Financial Crisis, and we adopt a broadly related approach in seeking to understand how and why the Irish residential real estate bubble played out as it did and, critically why it appears to be repeating so quickly with an apparent lack of learning. In particular, we explore the key role played by denial and blame in this process and why, as a result, the bubble is being re-run, suggesting the need for society to re- experience the trauma (Freud, 2003). Whereas psychoanalysis is well established in organizational theory (e.g. Gabriel, 1997; Clancy, Vince and Gabriel, 2012), there has been much less application to the understanding of economy-wide phenomena to date, with a dearth of empirical studies. Adopting an abductive research methodology, we draw on a wide range of different sources including academic articles, government reports, media coverage, books and monographs to develop a richer theory to help make sense of the Irish residential property price trajectory, and potentially by implication other property bubbles.

We make a number of contributions to the extant literature. This is the first study to apply a psychoanalytic lens directly to the dynamics of market behaviour in a real estate bubble, which because it affects the whole of society, has even more widespread ramifications than equity market bubbles such as dot.com mania (e.g. Cassidy, 2002), as housing is a basic need. We also demonstrate the seductive power which property and land represents in the Irish psyche.

We also contribute to theory, in demonstrating the need to go beyond the cognitive, and explicitly acknowledge the vital role of emotions and unconscious fantasy, in seeking to understand such crisis events as well as that of the behaviour of large socioeconomic groups. In this latter context, we draw on basic assumption group theory, which is usually applied in the context of small groups in a clinical setting (Bion, 1952) to large virtual groups. We demonstrate how manic denial, manifested in system-wide blame, and the lack of acknowledgement of being willingly caught up in collective wishful thinking prevents any feelings of guilt and shame emerging which are necessary for learning and for any change to take place, equivalent to Klein's (1952) depressive state-of-mind at an individual level. As a direct consequence of this Irish house prices are currently experiencing a re-run of the earlier bubble. However, paradoxically, this time price increases are being driven by property shortages associated with government policies designed to constrain house building in a misguided attempt to prevent another bubble, rather than by speculative excitement in an environment of adequate supply. We speculate that, on one level, this reflects an acting out of a repetitive compulsive drive by the unconscious need to re-experience trauma (Freud, 2003).[3]

The remainder of the paper is structured as follows. In the next section we introduce our conceptual background. In the following section we set out our research methodology and empirical material. The next section provides our findings. Finally, we discuss our findings, raise public policy implications, offer our contribution to theory and make suggestions for further research.

Conceptual background

Adopting an abductive approach to the understanding of the Irish property bubble we employ a psychoanalytical lens in our initial interrogation of our empirical material. In particular, we explore three themes, society-wide contagion, the key role played by the phantastic object, and the ways in which society collectively defended against the intrusion of underlying reality.

Emotional contagion

[3] Freud (2003) regards repetition compulsion as dominating the pleasure principle whereby the patient "is obliged to repeat the repressed material as a contemporary experience instead of… remembering it as something belonging to the past… the compulsion to repeat the events of his childhood in the transference evidently disregards the pleasure principle in every way." (p.288).

Pazzaglia et al (2017) show how, despite being active participants in the property bubble themselves, their banker interviewees appeared detached from any individual responsibility in seeking to make sense of it, instead blaming a wide range of perceived guilty parties.[4] Whereas these authors take a cognitive framing perspective in their analysis, we argue in this paper the need explicitly to recognise the unconscious processes at work and the powerful society-wide way in which society collectively defended against experiencing the mental pain associated with having to acknowledge the shame and guilt of being caught up in such devastating outcomes and the need to repeat these.[5]

Phantastic objects

In their paper on dot.com mania, Tuckett and Taffler (2008) argue that all investment activity includes the investor's unconscious belief that any investment can be represented both as exceptionally exciting and transformational in unconscious psychic reality. The term phantastic object, which they coin, is used to convey this idea.[6] "*A phantastic object is a mental representation of something (or someone, or an idea) that fulfils the individual's deepest and earliest desires to have exactly what they want when they want it.... Phantastic objects allow individuals to feel omnipotent like Aladdin (who owned a lamp which could call a genie ..."* (Tuckett and Taffler, 2008: 395-6). Tuckett and Taffler in fact argue that almost anything can potentially become a phantastic object e.g., dot.com stocks, hedge funds, railways, tulips, and in our case real estate, arising from a "manifest cover story" (p 398) that

[4] These findings are consistent with the three officially commissioned reports on the crisis and the Government commission of inquiry.

[5] Although we use the terms shame and guilt interchangeably as in common parlance, strictly speaking they refer to different affects. Shame refers to how we feel about ourselves when we fall short of our ego ideal, whereas guilt, which is psychically more complex, relates to awareness of how an action has adversely impacted on others (e.g. Auchincloss and Samberg, 2012, pp. 94-95 and 244-247).

[6] The term phantastic object is derived from two psychoanalytical concepts. Object is used in the same sense as used in philosophy, as a mental representation (symbol) of something but not the thing in itself. The term phantasy refers in an imaginary sense in which the inventor of the phantasy is a protagonist in having his/her latent (unconscious) wishes fulfilled. The term 'ph' rather than 'f' is used to distinguish from fantasies associated with conscious wishful thinking or daydreaming.

"this time it's different". As Tuckett and Taffler (2008: 396) point out, phantastic objects are both alluring and transformational and are associated with excitement and glamour *"...[they] appear to break the usual rules of life and turn aspects of 'normal' reality on its head."*

Psychic defence mechanisms and basic assumption behaviour

The phantastic object provides a mechanism for the pleasure principle (Freud, 1911) to re-emerge (Tuckett and Taffler, 2008), to allow the wish-fulfilling phantasy to perpetuate, and to avoid unwanted external reality intruding. Defence mechanisms are employed to render the associated anxiety unconscious (Bion, 1952).

The concept of defence is central in psychoanalytic theory with a range of defensive mechanisms delineated. These include *splitting*, mentally separating good and bad feelings, with the latter being suppressed and rendered unconscious through a number of processes, *idealisation* (the unrealistic exaggeration of attributes or qualities), *projection* (unconsciously attributing unwanted feelings and attaching blame to others), and *denial* (the repudiation or disavowal of aspects of external reality as the individual does not want to know about or to diminish or avoid painful effects associated with that reality) (Moore and Fine, 1990;Auchincloss and Samberg, 2012)[7]. As Taffler and Tuckett (2008) state "*They may split those loved from their faults and idealize them, and see or project their faults on to others*". In this way emotional conflict and anxiety are sidestepped and avoided.

Tuckett and Taffler (2008) argue that when a shared belief in the existence of a phantastic object emerges, a *basic assumption* group (Bion, 1952) has formed. All negative news is unconsciously split off and repressed (and those expressing contrarian views dismissed or indeed vilified) with the raison d'être of the group to maintain the phantasy as if

[7] The psychoanalytical use of the word denial needs to be distinguished from its everyday use which connotes the assertion something is untrue, often with the intent to deceive.

it were real through the unconscious defences the group as a whole adopts against anxiety, and what its members don't want to know. In a basic assumption group the accumulation of information is used not for thought but to *feel* good (Bion, 1952: 245). In this way, continued wishful thinking and the good exciting (pleasurable) feelings can remain unchallenged. Splitting, idealisation, projection, and denial are equally evident basic assumption group defence mechanisms which, according to Bion, take the form of one of three 'basic assumptions': dependence, fight/flight and pairing (Bion, 1952, 1970).

Using this psychoanalytic lens we seek to gain insight into the Irish property bubble and associated emotional contagion and the resultant financial crisis.

Methodology and Empirical Material

We work with a range of empirical material to explore the antecedents, trajectory and consequences of the Irish residential real estate bubble. In particular, we draw on official reports, newspaper articles, television programmes, academic research, bank and property developer annual reports and accounts, literature (plays and novels) and books written on the crisis.

We adopt a longitudinal qualitative research methodology. A longitudinal approach allows us to develop a narrative of events unfolding over time and how people made sense of and experienced the bubble as it played out with property prices on a continual upward trajectory from 1994, peaking in early 2007, before collapsing, and then rebounding in early 2013 once more on a sustained upward path.

A qualitative perspective enables us to try to form a deeper understanding of the complex social processes at work where causal dynamics are not immediately apparent and may be in flux (Eisenhardt and Graebner, 2007). Our first step was to read in detail the three officially commissioned reports on the crisis (Honohan, 2010; Regling and Watson, 2010;

Nyberg, 2011) as official inquiry reports to form an initial understanding of what happened and why it happened and who was responsible (e.g. Maitlis and Sonenshein, 2010). These reports, and the subsequent Oireachtas Commission of Inquiry on the Banking Crisis, which reported in early 2016, only describe events as they unfold finding that everybody is to blame. Critically, however, in no case was any attempt made to explain *why*. Following this, we shift to a formal abductive approach (Alvesson and Karreman, 2007; Alvesson and Sandberg, 2011; Pazzaglia et al, 2017), by iteratively moving between our empirical material and the literature searching for frameworks that can help us form a clearer understanding of what happened and why it is being played out again so soon.

Our detailed analysis covers the time period starting three years prior to the first warning by the IMF that the Irish residential property market was exhibiting bubble characteristics (January, 2000 to December 2017).

In order to form an understanding of the role property may have held in the Irish psyche the authors accessed the inter-disciplinary Celt*ic* Tiger collection which consists of approximately two hundred books and research monographs in the Library of University College Dublin. About two thirds of these are written from an economic/business perspective, with the remainder drawn from a range of disciplines, including history, sociology, human geography, Irish studies, literary criticism, law, politics, architecture and urban planning. This corpus is supplemented by an electronic search for any potential missing titles using a number of key word search combinations. In addition, the authors searched the *Irish Interest, Irish History and Irish Current Affairs* sections of the two leading Dublin bookshops *Dubray Books* and *Hodges Figgis*. The first step in examining these texts was to read the introductions and conclusions followed by looking at the index to find all references to land and property. This analysis was supplemented by a key word search for mentions of property, land, housing, in articles written in such multi-disciplinary Irish Studies journals as: *The Irish*

Review, Crane Bag, Field Day Review, and *New Hibernia Review/ Inis Éireannach Nua, Studi Irlanderi, A Journal of Irish Studies*. The motivation behind reviewing the Irish studies literature is that contributors are drawn from across the spectrum of the social sciences and humanities. Whereas history, politics, sociology, psychology, literary criticism, and philosophy are well-represented there were few articles by economists and from business schools academics.

In addition, we perform a number of dedicated key word searches across all the national daily Irish newspapers, *Irish Times, Irish Independent, Irish Examiner*, as well as the main Sunday newspapers, *Sunday Independent, Sunday Business Post* and *Sunday Tribune* from the databases Lexis UK and Irish Newspaper Archives. We key word search for all articles mentioning *real estate,* or *property,* or *house* or *housing* combined with the names of (i) individual property developers, drawn from McDonald et al (2008), (ii) the CEOs and the chief economists of the four major real estate agencies (*Sherry Fitzgerald, Lisney, HOK, DNG*), (iii) the CEOs or chief economists of the seven major banks and building societies (*Bank of Ireland, AIB, Ulster Bank, Permanent TSB, Anglo Irish Bank, EBS, Irish Nationwide)*, (iv) the chief economists in the three leading stockbrokers (*Davy, Goodbody, N*CB), (v) the Governor of the Central Bank and the Financial Regulator, (vi) individual government ministers and members of the front bench. In particular, we investigate how what is said or not said changes as the various stages of the property bubble unfold.

We also explore for all articles that mention the words *property bubble* or *real estate bubble* or *housing bubble* or *property bubbles* together with mention of the *IMF, OECD* or the *Economist* in the period immediately surrounding the publication of their warnings on the bubble-like conditions prevailing in the Irish residential property market. Finally, we perform electronic key word searches for all mentions of *property, real estate, houses* or *housing* or *bubble* across the financial stability reports and quarterly and annual reports of the Central

Bank of Ireland, and the directors' commentary sections of the annual reports of the main banks and building societies.

In addition, the researchers discussed their emerging ideas with senior academics drawn from a broad spectrum of disciplines.

Findings

We set out our findings in three subsections. The first subsection discusses the role land and property hold in the Irish psyche. The remaining two subsections present our analysis of our socioeconomic actors as prices rose (1994- 2007) and in the period following the collapse (2007-).

Residential Real Estate and the Irish Psyche

Land and land ownership are perennial themes in Irish history (e.g. Lee, 1973; Dooley, 2004; Foster, 2007) with a particular focus on colonisation from the beginning of the 1500s, and, in more recent times the Great Famine of 1845-1847, where over half of the population was either wiped out or forced into emigration. The Irish people's obsession (preoccupation?) with land and property ownership is pervasive in media reportage even many years after the residential property bubble started to unravel post- April 2007. (e.g., "Call for Ireland to end property obsession", *Irish Times*, 18 September, 2009). As David Lynch, a senior writer for Bloomberg news agency and author of "When the Luck of the Irish Ran Out: The World's Most Resilient Country and its Struggle to Rise Again", observes "*with a detachment that comes from a distance of five generations"* [the economic collapse was aggravated by the Irish obsession with owning land] "*because of the history of dispossession and forced emigration*". ("Post-mortem for Celtic Tiger that predicts that Ireland can rise again", *Irish Times*, 13 November, 2010).

Interestingly, Dooley (2004) recounts that the archives of the Land Commission that was established, inter alia, to oversee the distribution of land and the settlement of land disputes and boundaries in the years following Irish independence in 1922 are exempt from the normal rule of making its documentation available to researchers and the public. This may well reflect the emotive nature of matters relating to land, its ownership and its role in Irish society.

It has been argued that part of the motivation behind overseas property investment by the big property developers in particular was revenge for colonisation against the British Empire[8] and an attempt to establish their own empire. This point is made by Fintan O' Toole, international award winning journalist with the *Irish Times*, and visiting professor of Irish studies at Princeton University:

Most weirdly of all, the mania of our feudal property-developing class was fuelled by a hunger to show the English that we were all grown up and that we are as good as them anyway. Sean Dunne told us that his insanely expensive project would turn Ballsbridge into the new Knightsbridge. Irish property developers outbid Saudi sheiks for trophy English buildings such as the Savoy hotel in London and flew the tricolour from their roofs, like the Russians capturing the Reichstag. ("Time for a new look at the old enemy", *Irish Times*, 29 June, 2010).

Paddy Kelly, a major property developer speaks about his great grandfather being evicted from his land in Laois, and of his belief that his ancestors had their land seized during the Plantation of Laois-Offaly[9] commenting that "*All that suffering in a sense is all part of*

[8] The notion of property as a conduit for revenge for empire was not confined to developers. James Reilly, a former Irish government cabinet minister, recounts how when he purchased a Georgian country estate in 2001, containing the "king's bed", a craved oak, sleigh bed made for the visit of George IV to Ireland in 1821, he jumped on the bed, saying, "Feck you your majesty, Paddy's here" ("Dr James Reilly on why he is selling his 'big house' in the country", Irish Times, 26th August, 2016).

[9] One of a number of plantations in Ireland, the first of which was in the sixteenth century, involving the confiscation of land by the English crown and the colonisation of this land with settlers from the island of Britain.

what we are" ("No Room for doubt in developers' world view", *Irish Times*, 2 December, 2008).

The notion of dispossession from the land, famine and forced emigration and property obsession is also firmly rooted in Irish cultural studies, postcolonial studies, sociology, human geography, anthropology, literature, poetry and drama (e.g. Bertha, 2004; Frawley, 2005; Corcoran, 2007, Gibbons, 2011; Coen and Maguire, 2012; Buchanan, 2013; Maher and O'Brien [eds.], 2014; Hourigan, 2015). Illustrative of this from a literary perspective is the following excerpt from the play *The Field* by the playwright John B. Keane, which was turned into an Oscar nominated movie in 1992 of that name, in a discourse between the "Bull" McCabe, who is bidding to buy a field of which he has been a tenant all his life, and the local priest:

"Bull" McCabe*: There's another law, stronger than the common law.*

Father Doran*: What's that?*

"Bull" McCabe*: The law of the land. When I was a boy, younger than Tadgh there, my brothers and sisters had to leave the land, because it couldn't support them. We wasn't rich enough to be priests or doctors, so it was the emigrant ship for all of them. I were the eldest, the heir. I were the only one left at home. Neighbours were scarce. So my father and I, we had our breakfast, dinner, and tea, working in that field without a break in our work. And my mother brought us the meals. One day, one day my father sensed a drop of rain in the air and my mother helped us bring in the hay before it was too late. She was working one corner of the field, and I was working in the other. About the third day, I saw her fall back, keel over so to speak. I called my father, I run to her. My father kneeled beside her. He knew she... he knew she was dying. He said an act of contrition into her ear and he asked God to forgive her her sins. And he looked at me, and he said, "Fetch a priest." Fetch a priest... And I said, "Let's - let's bring the hay in first. Let's bring the hay in first." My father looked at me with* *tears of pride in his eyes. He knew I'd take care of the land. And if you think I'm gonna face my mother in Heaven or in Hell without that field, you've got something else coming. No collar, uniform, or weapon will protect the man that stands in my way.*

Bertha (2004), reflecting on the role of land and housing in Irish drama states *the house on the stage often becomes an emotional, psychological shell of the self, carrying both "past memory" and "future possibility".* Homelessness tends to be equated to rootlessness.

Echoing, the comments of Paddy Kelly above, Hourigan (2015: 14), a professor of sociology, argues from a post- colonial, cultural studies perspective that, *historical conflicts over land may have contributed to the public appetite for owning property*… and goes on to posit… *official analyses of the crisis have tended to shy away from references to the postcolonial experience but that the repeated references to Ireland's colonial past in public discussion of the crisis suggest that colonialism may have had a particularly profound role* [in shaping the crisis]. Interestingly, she also notes (page 17)) that during the period directly following the collapse of the bubble there is a striking increase in popular and scholarly interest in the Great Famine of 1845-47.

Post the Great Famine land and land rights became intimately linked with Home Rule (e.g. O'Mahony and Delanty, 2001) and was in the words of Michael Davitt, one of the founders of the Irish National Land League, "*the engine that would drive the Home Rule train to its destination*."

Interestingly, from a sociological perspective, Maher and O'Brien (2014: 21) suggest that favourable economic factors, occurring post 1994 and in particular from 1997 onwards, may also have been reinforced by the need to suppress anxieties arising from contemporaneous revelations and scandals in the Catholic Church, which had held a privileged position in Irish society post the Famine (e.g. Larkin, 1998: 66-68), that came to light in the 1990s leading to a "*paradigm shift in Irish society from symbolic capital to real* *capital as encapsulated in disposable income, income, cars and property portfolios"* as no civic morality replaced the role of the Church. The property bubble may also have unconsciously filled the vacuum that the shaking of the very foundations of Irish society that resulted. This view is also promulgated by Inglis (2007:189-190): "*They* (the Irish people) *had moved from being quiet, poor Catholic Church mice embodying a discourse and practice of piety and humility to becoming busy, productive self- indulgent rats searching for the next stimulation"*.

Our evidence in this sub-section is clearly consistent with property taking on the mantle of a phantastic object.

Excitement and euphoria (1994- 2007)

Figure 1 traces out the trajectory of the Irish residential real estate bubble starting in 1994 when property started to emerge as a phantastic object through to 2017. The dramatic rise in property prices from 1994 up to the peak of the property bubble in April 2007 is shown clearly, together with its continuous fall until early 2013, and then the strong rebound to the time of writing.

Figure 1

Irish residential real estate prices started to increase post 1994. 1994 has been characterised as the starting point of the Celtic Tiger and was associated with a sustained period of economic growth in the Irish economy which had been ravaged in the recessions of the mid-1980s. Property-related tax incentives and rising incomes acted as a catalyst to unleash residential real estate as a speculative asset.

In 1997, a more interventionist government came to power with policies to encourage property ownership and investment. However, post the dot.com crash in early 2000 economic growth started to slow down. As a response, the European Central Bank, in tandem with other monetary authorities, began on a programme of successive interest rate reductions, continuing until December 2005. In the face of a stalling in export- driven growth, policy shifted towards stimulating domestic demand. In December 2001, the Irish government also introduced a number of incentives which further stimulated demand for property.

During this period residential real estate began to attract increasing media coverage. What is noticeable in this coverage is the way emotional terms were used to talk about real estate in newspaper property supplements. Expressions such as "living the dream", living the lifestyle", "opulent living" , "show stopper", "sheer opulence", "the spirit of gracious living" " a perfect setting, "a perfect lifestyle" abound.

Such were the prices achieved for properties and the pace of their change even property developers did not know how to pitch the price for new developments. McDonald and Sheridan (2008, page 8) quote one property developer on the shift in the idea of a 'phase' in relation to new property developments: *"Before the boom, it used to be phase 1 this year and Phase 2 the next. Now there was a day between them if that. Thus developers would set a price and then decide the price was too cheap. What happens then is that you call the next bunch of exact same houses 'Phase 2', and the price is hiked maybe 15 per cent. And that could all happen in a few days or in an afternoon"*

Associated with this euphoric state is an increase in overseas property purchases using similar embellished descriptions, (e.g., "Irish people big players in Costa del Sol property boom", *Irish Times*, 16 July, 2004; "Big adventure in the Balkans for investors", *Irish Times*, 1 September 2005).

Interestingly, as boom turned to euphoria property developers themselves were also idealised as phantastic objects and there was a fascination with their social lives, lifestyle, personal relationships and their property deals in the media. (e.g., "For today's property developer, the world is their stage – and they're in the centre", *Irish Independent*, 26 Nov 2004). They even attracted sobriquets such as "*Paddy the gent", "low- profile Liam", "High-flying Johnny", "King of Ballsbridge", "the Buccaneer", "the squire", "the baron", "Sean, the tower", "Bernard the builder", "Posh Paddy "Robo Paddy*" etc.

One such social event reported in the *Sunday Independent* serves to illustrate the "god- like' idealisation of the property developer. In providing an account on the wedding of property developer Sean Dunne to gossip columnist and socialite Gayle Killilea on the Jackie O, the yacht that Grace Kelly and Aristotle Onassis were married, the article discussed:

"… It was redolent of nothing as much as the Great Gatsby… The nuptials which cost €1.5m were the best kept secret in Ireland… The guests were a fascinating sample of Irish society; bankers and footballers, designers and theatre directors, not to mention, given the groom's background, political dealmakers…He presented his wife to be with a diamond necklace which cost €300000 and earnings to match…After a champagne reception in the Splendido, the guests returned to the Cristina for dinner where Italian Michelin star chef Alphonso prepared a ten- course dinner, each one accompanied by vintage wines." ("Gayle Force wedding shows A-listers how to do it in style", *Sunday Independent*, 18 July 2004)

Even the Irish Prime Minister, Bertie Ahern, was invited but at the last minute, due to the publicity surrounding the event, did not attend but rang in during the wedding speeches:

"Dunner, you and I go back a long way. I wish I could be there. I'm sorry I couldn't come but I would have been more trouble to you than I'd be worth."

The comments by the Irish Prime Minister are interesting in that it was in the Fianna Fail hospitality tent at the annual Galway Races, a venue which ultimately became a focus of attention as contributing to the forging of relationships between property developers and politicians that Dunne and Kilillea were introduced: [10]

"*Killilea caused a stir among the property developers, bankers , politician and other assorted cronies who quaffed champagne and plotted deals in the Fianna Fail tent at the Galway races in the early Noughties*", and goes on to say "*Gayle Killilea and Sean Dunne were the couple that most encapsulated the excesses of the Celtic Tiger . Not long before the peak of the boom, he infamously asked her to pick a number between 54 and 75 in order to choose his bidding amount on the Jurys Ballsbridge site [the Dublin equivalent of Knightsbridge]. Gayle picked 75 as it was the year she was born.*" ("Gayle Killilea: From babe about town to baroness of Ballsbridge", *Irish Independent*, 24 September, 2011).

Such was the collective euphoria and the fact that credit was easily available all strata of Irish society got caught up in the bubble with many ordinary people purchasing multiple properties both in Ireland and abroad as if there was no tomorrow as the following illustration reported in McDonald and Sheridan (2008. page xv) about a circuit court repossession case illustrates:

"*... a Dublin father of three on an Air Corps pilot's (Irish airforce) salary of around €53,000 a year had managed to build up a twelve-house property portfolio, with loans of €8 million from nine separate financial institutions.*"

As house prices raced to a peak there were, starting in 2003, a number of warnings from international bodies and respected financial media outlets, including the IMF (2003, 2004), the *Economist* (2005) and OECD (2006). However, no one wanted to listen, with the media arguing that their assumptions were wrong and these bodies did not understand the

[10] The Galway Tent itself has morphed into a metaphor in newspaper coverage to the present day for the excesses of the Celtic Tiger era. Such was the emotiveness associated with the term Galway Tent that the Fianna Fáil members of the Oireachtas Commission of Inquiry into the Banking Crisis refused to sign off on the report unless reference to the tent was excluded, with the result being the final report made no reference to the Galway tent. ("Tiger FF vetoed summary of Oireachtas probe over 'Galway tent' references", *Irish Independent,* 30 January, 2016).

unique nature of the Irish property market (e.g., "Prices to rise as equilibrium is miles away", *Irish Times*, 18 March 2005). Such a response is consistent with the repression of negative information and the projection of negativity onto the writers of the reports themselves by questioning the reports underlying assumptions, arguing in effect that "*this time it's different.*" (Aliber and Kindleberger, 2015).

In parallel with these warnings even a superficial look at the housing, banking and macroeconomic data during the period 2000-2007 indicated how the banking system and even the financial sustainability of the Irish State were hitched to the fortunes of the real estate sector. In 2000 real estate lending was 50% of GDP but by 2007 it was 2/3 greater than GDP (Irish Central Statistics Office). It also dominated lending to other sectors of the economy constituting 60% of bank loan portfolios in 2007, up by half since 2000 (Irish Central Statistics Office). The Irish government also became increasingly dependent on tax receipts from real estate transactions which progressively represented larger and larger proportions of its revenues, more than doubling from 8% of the total tax take in 2000 to 18% in 2007 (European Commission). The property bubble was not driven by supply factors as the high vacancy rate reported in the Irish Census of 2006 shows and the fact that Ireland was after Lithuania and Latvia the least densely populated country in Europe (Brawn, 2009).

So what was the Irish Central Bank's response in the light of this data and the international warnings? This was one of what could only be described as manic denial, basically market prices are always right in line with standard economic theory. It was only in the Banks's 2007 *Financial Stability Report* that the earlier warnings of the OECD and IMF about the existence of an Irish property bubble were addressed and then only to criticise the methodological approach of these studies which tend to be "*univariate and do not account for fundamentals*" and "*the distribution of house price declines (in their models) indicates that the majority occurred in the different economic period prior to the 1990s*." (p. 30). This is again in effect the argument that this time it's different! Irish economists and bankers clearly "knew" on one level as the data was unambiguous, but on another level didn't want to know and "turned a blind eye" (Steiner, 1985).

We turn to this in our next section where we present evidence on how basic assumption group thinking permeated Irish society as the bubble peaked and then burst and the nature of the psychic defence mechanisms potentially at work.

Anxiety and manic denial (2007-)

The underlying reality of the Irish property market, however, could not be held at bay forever and the phantasy that property prices could only ever go in one direction turned out to be just that as property prices started to collapse. Coinciding with this, interestingly, was the broadcasting of two programmes produced by the Irish State television station, RTÉ, on successive evenings in mid- April 2007 *Future Shock: Property Crash* and another current affairs programme *Prime Time* which both questioned the Irish property market's vulnerability to a crash. The context was the first quarterly period since January 1994 where residential real estate prices were flat. It is interesting to note that both programmes were of a highly speculative nature rather than providing any new factual information.

During these programmes there was the first specific mention in a public forum about the possibility of a *hard landing* in the property market and its implications. However, a number of bank and stockbroker economists strongly denied this in these programmes talking about the "*strong fundamental factors in the Irish economy*", "*soft landing*", an "*Irish economy utterly transformed in recent years*", "*fundamentals of Ireland are pretty unique*", "*strong natural demand"* and even one quoted former British premier Margaret Thatcher "*No prouder word in our history than freeholder*."

Even politicians and the media took umbrage at the tone of the two programmes and their adverse comments on the state of the Irish property market. The Irish Prime Minister

Bertie Ahern interviewed in July 2007 commented that people should not allow themselves to be convinced by "*merchants of doom*" that the Irish economy was in trouble and that the good times were over, appealing to peoples "*practical patriotism*". He further noted: "*Sitting on the sidelines, cribbing and moaning is a lost opportunity. I don't know how people who engage in that don't commit suicide because frankly the only thing that motivates me is being able to actively change something.*" (*RTÉ News*, 4 July 2007).

People knew but didn't want to know (Steiner, 1985) and went to great lengths to avoid facing reality. Commenting on the *Future Shock* television programmes, for example one journalist even had to resort to criticising the mood music as being potentially misleading: "*It wasn't the facts, which all sounded pretty damn serious…. No, my scepticism had more to do with the soundtrack* with its *Jaws-like music* (accompanying aerial shots of new housing estates). ("Hollywood hangers on", *Irish Times*, 21 April, 2007).

Interestingly, denial took the form of distain, as illustrated by what can only be described as a vitriolic attack on the competence and integrity of the two academic economists that appeared in the RTE programmes, Morgan Kelly and Alan Ahearne, who had belatedly broken ranks with their colleagues in suggesting that the property market was in bubble territory:

"*… the economists and fellow travellers in the media who want to talk Ireland out of its boom because it does not suit a mythical semi-socialist future where we would all be equally poor together"*, and that "*Do Professor Kelly and his doom-laden cohorts ever stop to think that they themselves are perpetuating a self-fulfilling expectation that prices will fall*? (*Sunday Independent*, 8 July, 2007).

Unlike during dot.com mania and the recent Chinese stock market bubble where when the bubble burst investors panicked and sought to sell their stocks as quickly as possible before prices fell further, there was little evidence in the Irish property bubble of such panic selling. Continuing denial substituted for the fact that the party was over. As the property market collapsed in 2007 and 2008 virtually the whole of the economics profession, banks, stockbrokers, real estate agents and the Irish government clearly colluded in the refusal to accept the facts in front of their eyes in their continued belief that the phantastic object was real and property would in due course continue its inexorable upward rise after a short correction (e.g., “Maturing market to get back to normality”, *Irish Times*, 14 February, 2008; “Report says investor activity to increase in second half of the year”, *Irish Times*, 9 January 2008). In fact, the media even argues that the declining prices improved affordability and that these temporarily low prices should be availed of before they started to go up again! *“The smart, ballsy guys are buying up property right now. [...] Tell you what, I think I know what I'd be doing if I had money… I'd be buying property. [...] So why would I be buying property right now if I could? …, property is good value these days. It's certainly cheaper than it was six months ago.”* (*Sunday Independent*, 29 July, 2007).

Interestingly, the frequency of positive mentions of foreign property acquisitions became more prevalent following the peaking of the bubble in April 2007 as domestic markets stalled as more value could be found in such markets (e.g., “Silver lining for survivors of eastern Europe’s property storm”, *Irish Times*, 20 November 2008; “Buyers looking for value tune into Tunisia”, *Irish Times*, 17 September 2009). In a further example of post-colonial hubris, a consortium of Irish investors even outbid British investors to buy the Island of England in the Dubai World Development. These series of islands were “*designed to make Dubai the envy of the world: a series of paradise islands inhabited by celebrities and the super-rich reclaimed from the azure waters of the Arabian Gulf and shaped like a map of the world*[1] (“Irishmen buy up island of England”, *Irish Times*, 11th September, 2008).

Everybody colluded in the phantasy that the party was not over repressing the clear evidence of a very changed market environment. Even the response of the Central Bank to the decline in property prices post-April 2007 continued to be belated and muted. Only in summer 2008, over a year after prices started to collapse, did it comment how "*much of the increase in house prices during 2006 and early 2007 did not appear to be supported by fundamentals*" (Central Bank, Summer Bulletin, p. 39).

In this context, the officially commissioned Honohan Report attaches particular blame to the Central Bank and refers to the fact that all the information was available to the Central Bank but they failed to use it effectively. The Report describes how "*sanguine conclusions were reached based on a 'selective reading of the evidence'*" (p.9) and regards the Bank's commentary on a "s*oft Landing*" as a "*triumph of hope over experience*" (p10). "*Rocking the boat and swimming against the tide of public opinion would have required a particularly strong sense of the independent role of the Central Bank in being prepared to "spoil the party and withstand strong adverse public reaction".* (p.16)

An analysis of the media coverage post-April 2007 also demonstrates how blame was employed to alleviate the psychic pain of having to give up such an immensely satisfying phantastic object as external reality intruded. All parties viewed as been involved, however remotely, in initiating, promoting and perpetuating the continuation of the enormously satisfying phantasy that prices would continue on an upward trajectory for ever were targeted.

As the property market started to stall in April 2007 blame first fell on the politicians for not doing more to reverse this. (e.g., "State action urged over housing market", *Irish Times*, 11 September, 2007). In parallel, the media blamed the bankers ("It's high time that we sacked some of those stupid bankers", *Irish Independent*, 2 October, 2008) and the property developers who, ironically, also blamed the banks for providing them with easy loans as the following quote from a leading property developer illustrates:

"*Bank of Ireland begged us for business. And I said at the time to them: 'when things go wrong you won't be able to manage it'. But they still pushed and pushed. The man I dealt with said: 'all I'm interested in is your home (as security) and your personal guarantee'*" ("Developer says Bank of Ireland begged for business", *Sunday Independent*, 3 May 2009).

In tandem with the blame being attached to bankers both the media and the banking profession blamed the Central Bank, and in particular its Financial Regulator (Patrick Neary) who was charged with the micro-supervision of the banking system who was ridiculed by those he was supposed to regulate (i.e. an example of projection):

"*We were all in this together…. I never thought he* (Neary – the Financial Regulator) *was over endowed with grey matter … It was not about the money – it was about the thrill of the deal….* "*We (bankers) were admired for making money and doing it well. People on the board loved the culture within the Bank, they would get presentations and go* '*Jesus Christ'*" (Anglo-Irish Bank, Chief Executive, reported in "Victim Fitzpatrick's book is just self-indulgent claptrap", *Irish Independent*, 10 January, 2011.)

As well as blaming the banks for lending to them in the first place, as we have seen, property developers equally blamed the politicians:

"*'This is a very small country'* he continues, *'half a dozen people could run the bloody place. But we've a talking shop in Dáil Eireann* (Irish Parliament) *full of people who've mostly never made a shilling in their lives. And now they've used the banks and the developers as a scapegoat for their own bad decisions*." ("Developer says Bank of Ireland 'begged for business'", *Sunday Independent*, 3 May 2009).

The politicians in turn blamed the Department of Finance for not sufficiently warning about the economic dangers arising from the property bubble. The Department of Finance in turn blamed the economics profession:

"*It said that 'bank and stockbroker economists repeatedly concluded that residential investment in Ireland was sustainable and prices were justified by fundamentals'* and, in addition, that *'forecasting was a hazardous activity'*" ("Department staunchly defends its economic advice", *Irish Times*, 24 June, 2010).

The wide ranging nature of the blame with all economic actors involved in the property market being criticised was given the official seal of approval in late 2010 in the three reports commissioned by the government into the crisis (Honohon, 2010; Regling & Watson, 2010; Nyberg, 2011). These were then followed by a Government Banking Commission of Inquiry that called in excess of 130 witnesses reporting in spring 2016 (Banking Commission of Inquiry, 2016). The findings of these reports and the Inquiry are summarised in Appendix 1 with direct quotes from the reports themselves.

Appendix 1

In their search for culprits to blame none of the reports reflected any collective guilt or shame with the consequence that any potential learning from experience is difficult or even impossible (Tuckett and Taffler, 2008). Without the ability to acknowledge how all of society had been caught up in the pursuit of the phantastic object there is an ever present danger that the whole traumatic process will repeat itself (e.g. OECD, 2015; 2017).

Discussion and contribution to theory

The Irish residential real estate bubble was highly emotionally charged. All economic agents in society, bankers, the media, regulators, economists, estate agents, investors and homeowners themselves actively participated and contributed to the property roller coaster. Residential real estate was idealised in the media, in particular post-2003, as boom turned to euphoria. Newspaper property supplements burgeoned and extolled the virtues of property purchase with such supplements routinely reporting auction prices exceeding advertised guide prices and detailing how property investment was far superior to leaving money on deposit or indeed investing in the stock market, with numerical examples typically provided. Those not on the property ladder were encouraged to invest quickly before they missed the boat or those that were already home owners encouraged to trade upwards to capitalise on the seemly inexorable price rises or indeed extend their property portfolios. Overseas property acquisitions were even seen by property developers as a "*revenge for empire"* and as a means of establishing a 21st century Irish empire. Interestingly, the Irish love affair with property was so seductive it continued unabated as Irish property prices stalled post-April 2007.

Banks fell over one another to make loans to developers to deliver more and more housing, with traditional checks and balances overridden (Lawrence, Pazzaglia and Sonar, 2011) ultimately leading to the progressive nationalisation by the Irish government of the retail banking system as the property market collapsed.

The Irish Central Bank, which was responsible for the prudential supervision of the banking system, was certainly not unique in turning a blind eye to what was going on. It was joined by effectively the whole of the economics profession, whether employed by government agencies, banks, stockbrokers, real estate agents, the media, or academia who colluded as a basic assumption group in denying what was taking place in front of their eyes. Even those economists, such as Kelly and Aherne, who were vigorously attacked following their negative observations on the property market in the *Future Shock* television programmes in April 2007 only first voiced their concerns in December 2006 when the property bubble had almost peaked! Such a response by economists was, as the Nyberg (2011) Report noted, consistent with the prevailing economic paradigm of a widespread belief in the efficiency of the markets:

" *... the Commission frequently found behaviour exhibiting bandwagon effects both between institutions ("herding") and within them ("groupthink"), reinforced by a widespread international belief in the efficiency of financial markets*" (Nyberg, 2011, page i)

In such circumstances, the consequences of such a blind faith in market prices is particularly damaging in the context of real estate bubbles, which the economics profession acknowledges are particularly devastating as all economic actors in society have stakes in real estate assets with almost inevitable banking system and macroeconomic consequences (e.g., Jorda, Schularick and Taylor, 2015).

The collective state of denial and lack of independent thinking is demonstrably apparent in the way all economic actors in society defended themselves against the implications of falling house prices to maintain their belief in the phantastic object was real. Strong economic fundamentals, the strong natural demand for property, and even that the moderation in house price levels afforded good buying opportunities were adduced to defend against underlying reality. As the denial continued and prices continued to decline the pronouncements and annual reports of bankers, real estate agents, property developers continued to be overwhelmingly sanguine. The prevailing wisdom was that the property market had only temporarily stalled and could be kickstarted by the government – and that the economics of the banking and economic system were fundamentally sound.

It was only in late 2010 coinciding with the €64 billion IMF. EU, European Commission (Troika) bailout that the real world could no longer be kept at bay that the overwhelming majority of the commentary turned from manic defence to recrimination, blame and scapegoating. Property developers blamed bankers, bankers blamed the Central Bank and politicians, the media blamed bankers, real estate agents and the Central Bank etc.

It is interesting to note how, as the media lamented, in none of the three official reports or the Government Banking Commission of Inquiry on the property bubble did any new information come to light as to the causes of the crisis when they reported. However, this is perfectively consistent with the psychodynamic perspective on bubbles. The fact that no *new* information emerged is not unsurprising and in line with repressed anxieties no longer able to be rendered unconscious. As Tuckett and Taffler (2008) note: *"It is striking that the information available to economic agents to judge or price the riskiness of investments does not really change during the course of bubbles. Rather, what seems to change is the attitude of mind towards available information."* In other words the lens through which the information is viewed starts to alter. The assignment of blame and anger directed at others dominates and proper *work group* (Bion, 1952) functioning is prevented. As Taffler (2017, p.24) notes in the context of stock market bubbles *"Anger and blame of others rather than feelings of personal guilt erupt allowing investors to … avoid the painful realisation of how they have been caught up themselves in the very fulfilling and exciting fantasy."* As a result, the whole of society is unable to learn from experience with the ever present danger that the whole trauma will repeat itself in the form of repetition compulsion (Freud, 2003). In this context we may note that at the time of writing residential real estate prices are mimicking those of the bubble period! ("Will anyone stop another housing bubble", *Irish Times*, 10 June, 2017).

In aggregate, our case study of the Irish residential property bubble is consistent with a highly emotionally charged trajectory where residential real estate became a phantastic object with all society actively participating in the enormously satisfying wish-fulfilling phantasy that it was real. Through basic assumption group collusion powerful psychic defence mechanisms were erected to keep underlying reality at bay. When the bubble burst, and external reality inevitably intervened, recrimination and blame substituted for guilt and shame. Economic models of bubbles are largely incapable of capturing such dynamic group and social processes as they are predicated on an overriding belief in the rationality of markets.

The ramifications of the unravelling of the property bubble continue to be played out at the time of writing. Mortgage rates are still twice the EU average as banks try to recoup losses incurred during the property collapse and residential rents are higher than they were at the peak of the bubble in April 2007 with rents in September 2017 being 7% higher than at the peak on the bubble in April, 2007 due to insufficient supply (Residential Tenancies Board). Housing starts are only 10% of what is required to meet housing demand as lending to the construction sector has dropped by 90% reflecting how property developers, who were originally treated as god-like phantastic objects, are now tainted as scapegoats and not to be trusted or given development loans, or only at penal interest rates (e.g. "To combat the housing supply shortfall, our developers need 'help to build' measures", *Irish Independent*, 9 January, 2017; "Banks may be unwilling to lend to ease housing crisis", *Irish Independent,* 16 April, 2017). Restrictions on development by local authorities, intensified post the crash making building prohibitively expensive, in particular for apartment construction in urban areas. When this pointed out by developers this was treated dismissively by one Dublin city architect ("Ireland's Housing Crisis: What Next", RTÉ, 26th November, 2014). Throughout the period post the crash Irish people's love affair with property continues unabated (e.g. "Our national love affair with home ownership endures- but changes are needed", *Irish Independent,* 26 November, 2016). They are still preoccupied with buying a house rather than an apartment and are seeing other buyers as the enemy in bidding wars in circumstances of insufficient supply (e.g. "Price madness: A couple of hours later we got a call to say it had gone up by €45K", *Irish Independent*, 8 January, 2017; "'I'm exhausted and sick because it was two degrees' – Couples camp in cars for two nights to buy homes", *Irish Independent*, 12 February, 2017). In parallel, there has been reluctance on the part of politicians to deal increase supply with ways of freeing up land use, such as CPOs, citing the constitutional protection of private property rights afforded by the constitution (e.g. Nama chief makes dramatic accusations of land hoarding amid housing shortage crisis, *Irish Independent*, 2 June, 2017), and a proposed vacant sites levy of 3% which in itself has been argued by experts to be too low, has been deferred until 2019. Such a privileged position afforded to land and land ownership is consistent with the post- colonial arguments of Hourigan (2015). At the same time the World Bank has ranked Ireland 38th in the world for efficiency in dealing with building permits and the European Commission commented that "*the absence of a coherent spatial strategy that integrates housing and infrastructure delivery with projected population is a concern"* (Coveney's big plan to tackle the housing crisis leaves Brussels cold, *Irish Independent*, 26 February, 2017). The Department of Finance, has advised Government in its pre- Budget submission about taking action to increase supply in case it leads to overheating the economy (Building sector must be closely monitored- Finance, *Irish Times*, 14 September, 2017).

Supply constraints and attempts to avoid another bubble, in effect fighting yesterday's battles, is a defence against acknowledging that all were caught in the tremendously exciting wish fulfilling phantasy that the phantastic object seemed to represent for all economic actors in Irish society. Our analysis demonstrates how asset pricing bubbles need also to be viewed from a psychodynamic perspective if we wish to understand their morphology properly; economic models are not able to acknowledge the key role unconscious fantasy plays in all economic behaviour leading to conventional policy prescriptions being limited in scope and effectiveness.

Further work needs to look explicitly at the psychodynamics of large virtual groups as we illustrate in the case of Irish residential real estate to extend the small group context (Bion, 1952). Finally, future work on the analysis of market bubbles could, as we find in our analysis of the emergence of property as a phantastic object in the Irish psyche, usefully draw on insights from a multi-disciplinary perspective.

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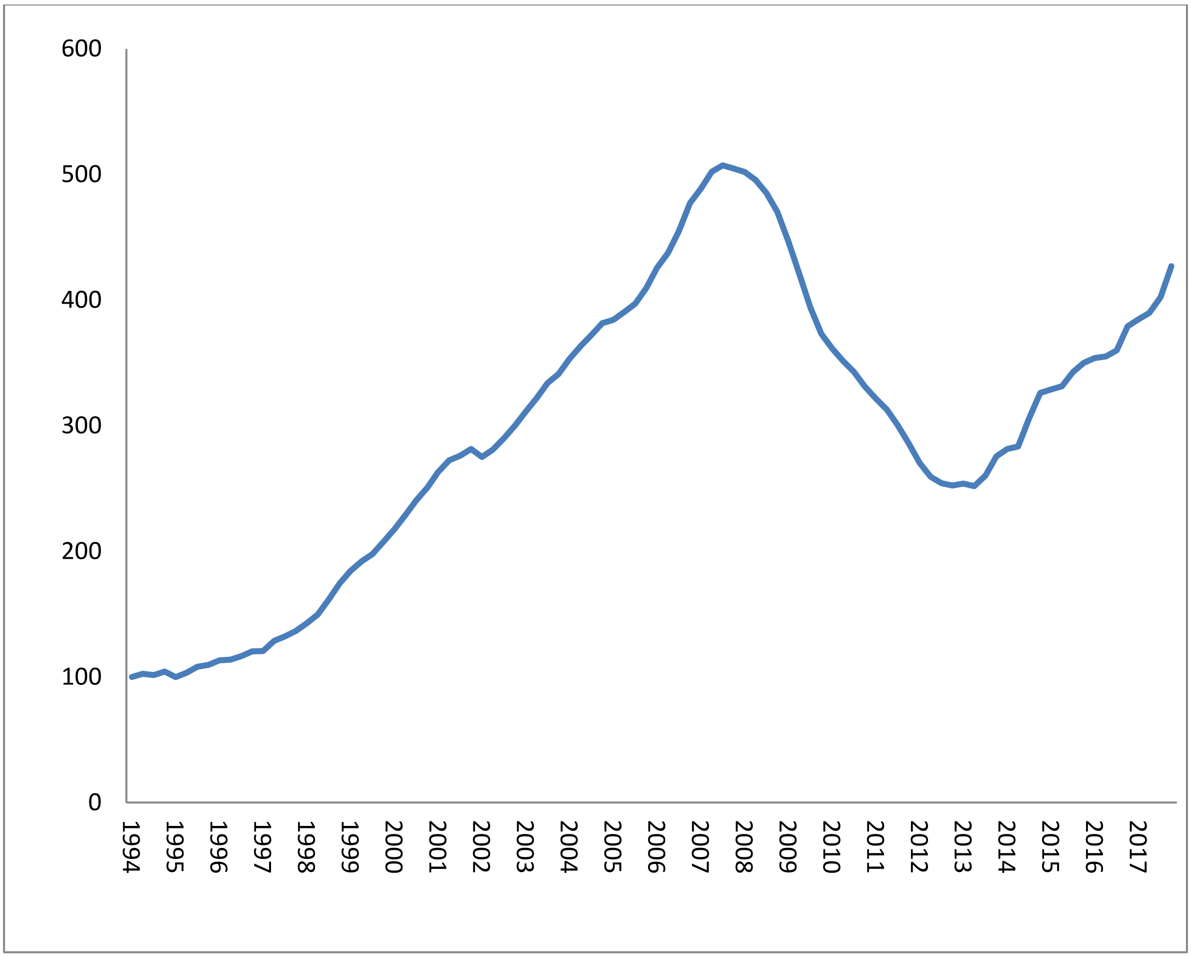
Figure 1

Graph of Residential Real Estate Prices 1st January 1994 -30th September 2017



Source: OECD and Irish Central Statistics Office

Appendix 1

Representative Quotations form the Three Official Reports and the Commission of Inquiry into the Banking Crisis

Banking Commission of Inquiry (2016)

Systematic misjudgment of risk… those significant roles in Ireland, whether public or private got it wrong…banks overreliant on wholesale markets.. new and more aggressive lending products…excessive executive remuneration in banks… internal audit not fully utilised… reliance on moral suasion by the financial regulator…IAS 39 delayed the recognition of loan loss provisions…revenue from the property sector a significant source of income for some media outlets… no evidence "soft landing" theory was tested (by the Central Bank)… overall tone of the reports (Central Bank Financial Stability annual reports) were too reassuring … Poor assessment of the Central Bank of the build- up of micro prudential systematic risk… (Government) fiscal policy after 2001 was not focused on mitigating and managing the property price increases.. (external auditors) audited particular banks for extended, unbroken periods… property or land valuations were not carried out in all cases with an emphasis on "desk top" and "drive-by" valuations

Honohan Report (2010)

(Government) budgetary measures aimed at boosting the construction sector… growing reliance on construction-related tax measures…increasing reliance on wholesale external funding… mortgage brokers and similar intermediaries incentivised to generate mortgage business… auditors and accountants should have been more alert to in bank lending and financial positions… major failure in bank regulation and the maintenance of financial stability (by the Central Bank) …supervisory practice focussed on verifying governance and risk management models rather than an independent assessment of risk… bank management tolerated a gradual lowering of lending standards… banks downplayed quantification of risk…unduly deferential approach (by the Central Bank) to the banking industry…language of successive FSR was too reassuring…"soft landing" was not based on any quantitative calculations or analysis… an unwillingness by the CBFSAI to take on board sufficiently the real risk of a looming problem… banks not challenging in detail the security underlying developer loans.

Regling & Watson (2010)

Banks had unprecedented access to cross border funding…fiscal policy, bank governance and financial supervision left the economy vulnerable to a deep crisis with costly and extended social fallout… (Government) revenue increasingly fragile since they were dependent on taxes driven by the property sector.. bank governance and risk management were weak sometimes disasterly so…response of supervisors (Central Bank) to the build- up in risks was not hands- on or pre-emptive… the financial and property boom in Ireland presented features- both macro- and microeconomic- in which financial stability analysis (by the Central Bank) should have sounded alarm bells loudly.. bank credit risk controls failed to prevent severe concentrations in lending on property

Nyberg (2011)

Banks' governance controls gradually weakened to allow increased growth in lending… (bank) information systems were weak and did not give managers and the board meaningful or complete information… on boards there appears to exist a collegiate and consensual style with little serious challenge or debate… lending was largely concentrated in the property sector… real estate valuations went frequently unchallenged in the credit function… risks associated with wholesale funding were not fully recognised or understood… insufficient understanding and acknowledgement (by the banks) of the risks associated with the adopted business strategy or sector concentration… numerous instances of non- compliance with respect to banking regulations which went unsanctioned by the Financial Regulator (in the Central Bank)… the rapid and concentrated lending growth did not lead to regulatory action with reliance placed on management assurances that all was basically well… macroeconomic data signalling the emergence of two key risks- growing dependence on foreign funding and the property sector did not appear to have caused acute concern (to the CB)… little was done to prevent the crisis. This is true of politicians, central bankers, department of finance officials and bank board members as well as influential analysts in the media, academia and financial enterprises… The commission suspects that on the basis of discussion held with a wide number of people that there may have been a strong belief I Ireland that contrarians, non- team players, fractious observers and whistleblowers will be informally (though sometimes formally) even publicly sanctioned or ignored regardless of the quality of the analysis or their place in an organisation…It cannot have remained a secret from auditing professionals that time-honoured prudential limits and procedures were gradually falling into disuse, particularly in some banks… the long upswing in the property market accompanied by relentless media attention eroded the risk awareness of banks and their customers… households and investors have seen their incomes and wealth increase markedly for a number of years and easy access to credit further encouraged belief in a never ending boom… media that are generally supportive of corporate and bank expansion, profit growth and risk taking while being dismissive of warnings of unsustainable development…much of the media enthusiastically supported households' preoccupation with property ownership.. pro- cyclical IFRS rules further limited the predictive value of banks financial statements… auditors did not report regulatory sector limit excesses to the Financial Regulator… unfortunate that sufficient, timely, and challenging auditor dialogue did not influence the banks business models and lending practices.