LUND UNIVERSITY • CENTRE FOR EAST AND SOUTH-EAST ASIAN STUDIES

The Irish Property Bubble of 1995-2010;

Japanese Lessons for the Celtic Tiger

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Abstract

Lauded for its success and heralded as an economic model for peripheral European countries to follow, since the bursting of the Irish property bubble in 2008 the management of the Celtic Tiger by the Irish state has been castigated as expressively how not to manage an economic bubble. Following a decade and a half of continuous growth averaging over six per cent, the Irish economy has since experienced significant depression which is currently stagnating with seemingly little prospect of abating. Since 2008, much talk within the Irish media has centred on whether the state might have managed the Celtic Tiger better and thus averted much of the destruction wrought by the bursting of the Irish property bubble.

Thus the purpose of this thesis was to ascertain whether the Irish state might have learned valuable lessons to avert such a property bubble from a previous case of property bubble, namely that of Japan in the late 1980s and early 1990s. This thesis compares the two cases, establishing their similarities – and thus grounds for comparison – with particular focus on the role played by both states. It then makes a number of suggestions as to what lessons the Irish state might have taken from the Japanese case so as to reduce the over-inflation of the Celtic Tiger's property bubble, and thus averting much of the fallout caused by its 2008 bursting. It then concludes by that stating that while previous Ireland's economic growth was regarded with something as approaching awe, in the future it might instead be studied as an example of how not to manage an economic boom.

Key Words: Japan, Celtic Tiger, role of the state within the economy, economic bubble, financial deregulation, Ireland.

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Chapter One: Introduction

1.1 Overview and Perspectives

Since 2008 the most pressing theme in Ireland has been that of the dramatic bursting of a vastly inflated property bubble; a bursting which not only ended the previous fifteen years of strong economic growth and rising living standards but one which sent the country into recession and instigated a state of extreme economic stagnation. Following the end of the Celtic Tiger, much energy has been expended by the Irish media on allegations of mismanagement and blatent ignoring of warnings on the part of the government and relevant property market actors concerning the property market in Ireland. Such actions, or indeed non-actions subsequently saw the property bubble overly-inflate and many analysts sought to establish what measures could have been taken to avoid such a dramatic crash.

Through a mixture of attention to print and broadcast media and the modules I have undertaken in this Master's program, I have noticed the wide range of similarities that can be drawn betweenthe Irish Celtic Tiger case and that of Japan in a period stretching from the late 1980s to the early 1990s. Given that both countries enjoyed sustained periods of envied economic growth,[1] highly valued property markets and harsh bursting of bubbles, I argue that there is a strong case for a comparison to be made between the property markets of these two countries. An important point to note is that a major difference between the two cases is that the Irish property market appears to be still in freefall whereas the Japanese example can be viewed in retrospect; thus one can speculate as to whether the Japanese experiences during that country's property crash might providevaluable lessons for the the relevant Irish authorities. Thus the overarching research aim of this thesis is to identify commonalities between both countries' property markets and their associated property market crashes. Following on from this, I will seek to establish whether the Irish state could have applied lessons from the Japanese experiences and thus circumnavigated the the calamitous property crash which occurred in September 2008.

[1] Telegraph, 'Alex Salmond speech branded balderdash',

1.2 Research Problem and Question

As mentioned above, the research aim of this thesis is to ascertain whether the Japanese economic bubble of the late 1980s and early 1990s might have provided lessons to the Irish state during the Irish Celtic Tiger; lessons which if acted on may have allowed Ireland minimise or even avoid some of the disastrous consequences following the Tiger's collapse in mid-2008. Thus my research question is as follows: **might the Japanese economic bubble of 1985 to 1993 have provided lessons to the Irish state which would have mitigated the ramifications following the collapse of the Celtic Tiger of 1995 to 2008?**

1.3 Theoretical Approach

The theoretical approach taken in this dissertation is that of neoclassical economics, chosen becuase it resonates so smoothly with the overarching research aim of the study proper. I will discuss my theoretical approach more fully in the following chapter but a brief snapshot of why I feel neoclassical economics fits my dissertation seems apposite at this juncture. A key feature of this discipline is its focus upon both the economic decisions of individuals and how these translate onto a broader scale of the wider economy. Given that my research question concerns the policy decisions of the Irish state (historic, current and future), I feel that this is a relevant topic. Neoclassical economics can also be of relevance to topics within the realm of political economy. As my intended results will be more subjective and analytical as opposed to mathematical deductions, I therefore feel this is another advantage for choosing the neoclassicaleconomics discipline as my theoretical approach. This standpoint will be expanded on in Chapter Two.

1.4 Research Gap Thesis Will Address

Naturally it is difficult to speculate what results or derivations a study will produce. Notwithstanding this however, I believe that the completion of this study will result in a number of timely conclusions. As stated earlier in this section, following the collapse of the Irish housing bubble in the middle of 2008, a significant amount of media coverage centred on the similarities between the Irish example and that of Japan fifteen years previously.[2] However despite this attention, such comparisons were often very vague, even bordering on the anecdotal on occasion. Due to this I believe that there exists a substantial gap within the research literature to warrant further exploration of this subject, a gap this judicious research study seeks to fill.

The gap in the research, in my view, is that although there has been comparisons made between Ireland and Japan they have been broad brushstroke comparison, at times even tenuous. Thus I argue that there is a need for a more expansive study focusing on the similarities between the two countries' bubbles and overall patterns of decline. Additionally, the aim is that by the closing of this thesis it will have been established whether there might have been lessons from the Japanese case that the relevant Irish authorities could, indeed ***should*** have learnt. More specifically, I hope to ascertain to what extent the overall patterns of the two property bubbles overlap, if not match each other. Could the Irish state have looked at the Japanese example,deduced that a similar scenario was occurring in the Irish Celtic Tiger and responded accordingly?

1.5 Content of Thesis

The intended empirical content of my thesis is a review of the experiences of both Japan and Ireland in their respective property bubbles and subsequent economic crashes, before comparing and contrasting the two cases to establish ifJapanese experiences could have been transferable to the Irish case. Thus the overall structure and layout of this thesis is as follows: This introductory chapter sketches a brief background to the property milieu of each country within this thesis' timeframe and importantly, presents the study's main research questions. Following on from this, Chapter Two discusses my theoretical approach, both explaining and justifying its suitability for this particular research study. Within this chapter I shall also provide an overview of economic bubbles, generally as well as more specifically property bubbles so as to provide more background and understanding to this topic. Following this theoretical chapter, I shall then discuss the methodology of this thesis in Chapter Three, explaining what approach was taken, justifying why such a choice was made and outlining it

[2] McWilliams, 'Japan's housing slump was scary, and ours could be too',

was applied during the research of this study. After this Chapters Four and Five respectively are devoted to the Japanese and Irish examples, in which I shall first recount the rise of both economies, contemporary fears surrounding whether the economies were 'overcooking', the bursting of both their property bubbles and a brief account of what transpired post-bubble in both countries. So as to fully facilitate a comparison between Japan and Ireland, each chapter will also contain a section containing comparative variables-both economic and also socio-demographic-which will assist in comparing and contrasting both cases, as well as providing additional background to the property bubbles of each country.

There is no distinct literature review chapter within my thesis, a conscious decision which I made due to a number of factors. In my initial first draft I did include a literature review. However, upon reviewing my initial literature review draft, the majority of its focus appeared to be on the theory of my thesis. Thus my following chapter on theory somewhat doubles as a literature review, a decision which I believe maximises the space afforded to me for this thesis without detracting from its content.

Fiinally, the thesis concludes with an analysis of marked 'rise and fall' patterns in both countries, an assessment of the economic impact of burst property bubbles and the extent of the similarities between both examples, once again reminding the reader that an underlying motivation of this research was to establish if indeed the Japanese case might have provided crucial lessons to the Irish example. I shall close with a brief recount of the material covered within the thesis, before making my final conclusions. Methodological decisions made throughout this research, all the time infused with the theoretical approach of this study, will enable this thesis to succinctly answer its research questions.

Chapter Two: Theory

2.1 Theoretical Approach of Neoclassical Economics

The purpose of this chapter is to present the theory employed within this dissertation, that of neoclassical economics, explaining both its choice and what form of theoretical framework it provides for the remainder of this thesis. After having both explained and discussed neoclassical economic theory including acknowledgement of the weakness of the stance in the eyes of some commentators, I will explain why I regard it to be so applicable to my thesis.

Originally introduced by Thorstein Veblen in 1900, the term neoclassical economics delineates a distinct and relatively homogenous school of thought of economic theory which first became prominent in the late nineteenth century following the Marginal Revolution and now arguably dominates mainstream economics.[3][4] The Marginal Revolution is the term given to describe developments during the middle of the nineteenth century which saw economists such as Jevons, Menger and Walras seek to introduce the idea of marginal utility into economic thought. Previously, the field had been dominated by classical economics which focused on ideas surrounding the production and distribution of wealth. However, the concept of marginal utility challenged such thinking by attempting to explain the discrepancy in the value of goods and services by reference to their secondary, or marginal, utility and providing an explanation as to why why certain products might be valued more highly by certain individuals and the possession of such offering greater marginal utility.[5] It is within this field, with its attendant focus upon human preferences and behaviour where current neoclassicism resides.

While well-recognised, the term neoclassical economics is nevertheless somewhat fraught with ambiguity as a clear unanimous definition can be difficult to ascertain. Broadly speaking it is in agreement that economics is a science that views human behaviour as a relationship

[3] Clark, 'Political Economy: a comparative approach', pp.31
[4] Aspromourgos, 'On the origins of the term neoclassical', Cambridge Journal of Economics, Vol.10, No.3, pp.265
[5] Ibid, pp.33

between ends and [at times] scarce means that have alternative uses depending on the situation and context at hand. According to Brennan and Moehler, neoclassical economists are often regarded as pursuing this line of study by using supply and demand models that place a value on price depending upon the subjective preferences of producers and consumers.[6] Such preferences on the part of consumers and producers are relied upon so as to avoid the so-called objective theory of classical economics, in which the value of goods can be established by reference to either a basic commodity or the labour required to produce it.[7] Recognition of humans possessing subjective preferences for certain products rejects this classical theory of being able to aportionproduct value according to certain fixed references. Rather it subscribes to the earlier, briefly discussed, theory of marginal utility often being responsible for a products price.

Neoclassical economic theory regarding such behaviour rests certain assumptions which according to E. Roy Weintraub are:[8]

- People have rational preferences among outcomes that can be identified and associated with a value.
- Individuals maximise utility whereas firms maximise profits. I.e. individuals make decisions regarding their desire for a particular product, whereas the decision of a firm is based solely upon its future profitability.
- People act independently on the basis of full and relevant information

From these three assumptions, neoclassical economists have built a structure to understand how people allocate scarce resources among alternative decisions - in fact understanding such allocation is often considered the definition of economics to neoclassical theorists. The identification of these three assumptions as underpinning neoclassical economics is taken even further by Arnsperger and Varoufakis, who describe them as: methodological individualism; methodological instrumentalism and methodological equilibrium.[9]

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[6] Brennan and Moehler, 'Neoclassical Economics', pp.1
[7] Johnson, 'Value (political economy)', The New International Encyclopadeia', Volume XIX
[8] Weintraub, 'Neoclassical Economics',
[9] Arnsperger and Varoufakis, 'What is Neoclassical Economics?', Panoeconomicus , Vol 53, Issue 1, pp.6

The first of these concerns the focus of neoclassical economics with the individual. Arnsperger and Varoufakis write that this can best be understood in relation to the roots of the discipline itself within liberal individualist social science. Here the socio-economic phenomenon under scrutiny is analysed by focusing upon the individual whose actions helped to bring it about.[10] To such an individual the first tenet of this theory is the idea that socio-economic explanation must be sought at the level of the individual agents, independently of the social whole their actions bring about.

The second assumption of neoclassical economics, methodological instrumentalism, relates to what motivates actors to make economic decisions, whether that is maximising utility for individuals or maximising profit for firms. This assumption holds that all behaviour is preference-driven, wherepreference is a constant and the only thing that changes is what each individual is motivated *by* or *prefers*. In this sense, neoclassical theory is a narrow version of consequentialism in which the only consequence that matters is the extent to which an actor's index of 'preference-satisfaction' can be maximised.[11] Such an assumption should be viewed as so given, that "there is no longer any philosophical room for questioning whether an agent will act on their preferences".[12]

The third and final basic tenet of neoclassical economics according to Arnsperger and Varoufakis is methodological equilibrium. This equilibrium is, in theory, what will occur once methodological individualism and instrumentalism are carried to their logical conclusions. If neoclassical economics is concerned with understanding the behaviour of individual actors and such behaviour will always follow certain instrumental lines, than it must follow that aggregate behaviour of individuals will become sufficiently regular so as to give rise to solid predictions.[13] Thus neoclassical economists attempt to answer a central question: 'what behaviour should be expected in equilibrium?' To answer this question, analysis must begin

[10] Ibid, pp.5
[11] A theory which holds that the ultimate basis for whether one's conduct is 'righteous', is the consequences experienced following such conduct. From such a standpoint, a moral action is one which results in a favourable outcome for the actor.
[12] Arnsperger and Varoufakis, 'What is Neoclassical Economics?', Panoeconomicus , Vol 53, Issue 1, pp.5
[13] Ibid, pp.9

by examining the agents' utility functions, specifying their constraints, and stating their 'information' or 'belief'.[14] By following its natural conclusion, such an approach points to actors making economic decisions based on the information available and which they view as relevant. The question of whether such equilibrium is attainable or how it might manifest itself is treated as somewhat irrelevant and "not central to the neoclassical project".[15]

It is difficult to envisage a scenario of a trained economist denying that their theoretical practices digress from the three methodological moves mentioned above: individualism; instrumentalism and; equilibrium. Arnsperger and Varoufakis thus conclude that despite periodic denials on the part of theorists who wish their discipline to be simply labelled as scientific economics, there is a growing body which subscribes to the three assumptions listed above. This theory, argue Armsperger and Varoufakis, can be legitimately labelled as *neoclassical economics*[16]. Notwithstanding their contention and desspite its position as a leading branch of current economic theory, neoclassical economics is not without its critics. Key criticisms of the discipline include that it possesses a normative bias whereby it can often describe a 'utopia of equilibrium' rather than actual economics in the real world.[17] Additionally, neoclassical economics has been accused of ignoring key aspects of human behaviour, instead focusing rather upon an 'economic man'. According to Vebler, this is entirely rational and is "a lightning calculator of pleasures and pains, who oscillates like a homogeneous globule of desire of happiness under the impulse of stimuli that shift about the area, but leave him intact".[18] Both of these criticisms point to neoclassical economics as being somewhat ignorant of the real world, instead choosing to focus upon a more abstract utopia where all human beings are entirely rational. However, while conceding that such a contention may have a degree of validity, I feel that Arnsperger and Varoufakis rebuke this point very well, when they discuss the importance of equilibrium to neoclassical economics, arguing that whether such equilibrium is realistic or is not the crux of matter, but rather it is merely a place where theorists can imagine rules to be followed free from outside

[14] Utility functions should be seen as the level of capital available for the agent to spend, whereas constraints would include those factors which prevent him from spending capital-either a lack of capital, time pressures, or objections to purchasing said product.
[15] Ibid, pp.10
[16] Ibid, pp.12
[17] D'Orlando, 'Will the Classical-type Approach Survive Straffian Theory?', Journal of Post-Keynesian Economics, Vol. 27, No.4, pp.634
[18] Veblen, 'Why is Economics not an evolutionary science?', pp.73

interference, similar to the 'controlled environment' that natural scientists create for their experiments.

After having both explained and discussed neoclassical economic theory including acknowledging the weakness of the stance by some commentators, I now feel it pertinent to explain why I regard it to be such a good fit for my thesis and why all three of its key assumptions - methodological individualism; methodological instrumentalism and methodological equilibrium are so applicable to my topic. Beyond the obvious that this thesis relates directly to political economy and therefore perhaps a pure economic theoretical paradigm would be more expedient?; nevertheless I feel neoclassical economics resounds strongly with my overriding research aim. As I outlined in my introduction, my thesis is a study of the property bubbles of the past two decades in both Japan and Ireland, with my research aim being to ascertain whether the Irish state might learned valuable lessons from the earlier Japanese case. Therefore, the key aim surrounds the behaviour taken by certain individuals, and what information, or knowledge of past developments, might have persuaded them to take different action.

The link between such an analysis of policy on the part of key individuals in both cases and the first two assumptions of individualism and instrumentalism I feel are readily apparent. These assumptions can be seen as motivation factors for certain policies or political directions taken by either state[19], with the first assumption of individualism in particular being easily identifiable with the desire of both Japanese and Irish governments to prolong their periods of economic growth. Similarly, the third assumption of individuals acting upon the basis of having full and relevant information, can be seen as the topic of my research aim, establishing whether the Irish state might have been able to take lessons from the Japanese case had it taken more note of said case, and if so what information would have been required to influence such a shift in behaviour?

[19] An example of this can be seen by both countries' promotion of their capital region as an international trade and business hub, whilst simultaneously publically stating the desire to decentralise the state.

2.2 Economic Bubbles

Having provided a theoretical background to neoclassical economics, it now seems appropriate to provide some background to the concept of economic bubbles, Generally regarded as an economic cycle characterised by rapid expansion, often more than is warranted by the fundamentals, before a rapid contraction, economic bubbles have moved more into the public conscious following the global financial crisis of 2008.[20] The term bubble itself, can be traced back the South Sea Bubble of 1711 to 1720 in Great Britain.[21][22] Upon studying such crises one can immediately understand the choice of the word 'bubble' for it acts as an apt metaphor for inflated stock prices which expand due to nothing more than speculation before sudden bursting once over-extended.[23]

Despite this lack of common consensus which might adequately explain the phenomenon, I believe that a tentative list of common characteristics can be established:

- Firstly, that the price of an asset exceeds its worth. Thus, that its selling price is significantly greater than the amount the owner can reasonably expect to accrue in resultant cash flow.[24] However, the identification of when assets move beyond their worth is problematic as fundamental value can be difficult to ascertain.
- The second characteristic is that both during the periods of expansion and contraction the asset in question is subject to high volume trading, trading in which expectation is placed on the direction of change-often contrary to normal market conditions.[25]
- Thirdly the presence of excess liquidity in a financial system can often lead to bubbles, as put simply: 'too much money chases too few assets'. This is especially pertinent in the cases of Japan and Ireland.[26]

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[20] Shimizu and Watanabe, 'Housing Bubbles in Japan and the Us', Public Policy Review, Vol.6, No.3, March 2010, pp.431

[21] Brunnheimer and Oehmke, 'Bubbles, Financial Crises and Systematic Risk', pp.7

[22] Initially used to refer to the actual companies involved and their inflated stock, as opposed to the nature of the crisis itself, the term later became used a byword to describe financial crises of similar nature.

[23] Komáromi, 'Anatomy of Stock Bubbles', pp.1

[24] Amrine, 'Origins and Characteristics of Recent Residential Real Estate Bubbles', pp.3

[25] Brunnheimer and Oehmke, 'Bubbles, Financial Crises and Systematic Risk', pp.12

[26] Komáromi, 'Anatomy of Stock Bubbles', pp.12

Yet despite such academic interest in the subject, there remains no singular unanimous explanation for what causes bubbles to develop. Various theories have been offered such as excess monetary expansion, low interest rates and the well-known ‘Greater Fool Theory’; however none have proved sufficient with bubbles even occurring in highly predictable (experimental) markets which ought to prevent irrationality.[27] This difficulty in establishing causes means that bubbles are frequently identified in retrospect, with much of the research surrounding them being focused on the impact their bursting can have.[28]

Jarrow, Protter and Shimbo broadly identify three distinctive forms of bubbles, arguing that examples of bubbles tend to fit into one of these categories. The first type of bubble is a uniformly integrable martingale, existing with an infinite lifetime. This definition is further expanded by the authors who suggest that “Type 1 can be viewed as an asset price containing a component analogous to fiat money”.[29] The second type of bubble is non-uniformly integrable martingales, existing for a finite-but unbounded-lifetime and is created by the caveat that trading strategies must finish in finite time.[30] The third variety of bubble is a strict local martingale and similarly to the second category, exists for a finite lifetime.[31] The authors provide a more in-depth explanation of this third type of bubble, suggesting it is created due to a standard admissibility condition. This condition, explained as the value of a short lowering to a certain value at which point the trading strategy must be terminated with positive profitability before the bubble bursts, removes downward selling pressure on the price of the asset and thereby allows the existence of such bubbles.[32]

In addition to these three types of bubble, Komáromi states that econometric models which assume rational behaviour on the part of investors divide bubbles into two broad sets, rational and speculative.[33] Speculative bubbles are defined as when market price and fundamental value of an asset diverge ‘too far apart’, therefore there realistically can be no resultant

[27] Smith, Suchanek and Williams, ‘Bubbles, Crashes and Endogenous Expectations in Experimental Spot Asset Markets’, pp.124
[28] Banque de France, ‘Financial Stability Review October 2008, pp.66
[29] Jarrow, Protter and Shimbo, ‘Asset Price Bubbles in Complete Models’, pp.2
[30] Ibid
[31] Ibid
[32] Ibid, pp.3
[33] Komáromi, ‘Anatomy of Stock Bubbles’, pp.3

income that will support the current market price. In contrast, rational bubbles also have market prices higher than fundamental values but such a price may be justified by the rational expectations of market players. Komáromi argues that such rational bubbles only form when shares lack a definite maturity. In such a scenario, the fundamental value is used almost as an anchor, with the actual market price staying somewhat attached to it.[34] Investors do recognise the disparity between market price and fundamental value; however still expect further increases in price. As there is never a guarantee for the eventual offset of prices, this bubble continues to swell until it reaches its point of maximum expansion and does so within a definite timeframe as argued by Jarrow, Protter and Shimbo. It ultimately implodes, thereby allowing the process to begin again.

Expanding on the topic of differing bubble types, Komáromi contends that a question of vital importance is whether economists can find a separating condition to explain these two types of bubbles, which is "the critical degree of divergence from fundamental value". Naturally, there exist other definitions of the varying categories of bubbles, chief amongst these is the model propagated by Allen, Morris and Postlewaith. Rather than Komáromi's rational and speculative bubbles, this model uses 'expected' and 'strong' as the two categories of bubbles. However, following my reading of this model, I regard it as sufficiently similar to Komáromi's definitions with no substantive difference in terms of classification so as to mean that further analysis of the model would be somewhat moot.[35]

2.3 Theoretical Framework

After having discussed the theory behind neoclassical economics and economic bubbles, I believe that I can now lay out the theoretical framework for my thesis. The problem that I set out to address is whether the Irish state could have acted differently in the managing of the Celtic Tiger and subsequent downturn, were lessons from previous economic bubbles – in this case Japan – observed. The main concepts within this problem I believe are the nature of economic bubbles, and the role played by Japanese and Irish governments in their respective bubbles. I believe I have sufficiently dealt with the former during this chapter, while the two

[34] Ibid, pp.4
[35] Ibid, pp.6

chapters following later in this thesis concerning Ireland and Japan deal extensively with the role of government(s) within the economy. In order to further explore these concepts, I shall also provide a range of indicators, or variables, which will enable to fully compare and contrast the two cases. These variables will include income to property price ratio, annual growth in property prices versus inflation, and the role of the financial sector in both countries, all of which were chosen due to their relevance to housing bubbles. Other, variables are also used such as demographics and recent economic history, with their choosing, as of that of the more economic variables above, being motivated by their ability to identify similarities and differences between Japan and Ireland. Thus I shall carry out my analysis by recounting both the events of both cases and comparing and contrasting through use of my variables, with particular focus paid on the role of the state in both Japan and Ireland. Through such an approach, I believe that I will gain a deep understanding of the issue, and be able satisfactorily answer my research question.

Throughout the course of this chapter I have sought to lay out the theoretical framework, or structure upon which this study was built. I explained the theory used, both of neoclassical economics and economic bubbles, with further explanation of their applicability to my study. Additionally, after also discussing some of the criticisms of neoclassical economics, I feel that I have presented a more balanced appraisal of my chosen theory which demonstrates a sound understanding of the issue. Having 'armed myself with enough theoretical knowledge' to progress, the following chapter deals with my methodolgical approach and how I gathered and analysed my data.

Chapter Three: Methodology

3.1 Introduction to Methodology Section

The methodological approach taken for this thesis was qualitative, as I regarded it as the most appropriate approach for the question my thesis sought to answer. Qualitative research, defined as “dealing with phenomena that are difficult or impossible to quantify mathematically such as beliefs, meanings, attributes and symbols”, may sacrifice in-depth knowledge of each single individual case, but can achieve an understanding of broad patterns across such individual cases which I believe is the key goal of my project.[36] Rather than producing a black-and-white, almost mathematical result which is quantifiable the anticipated results of this thesis are to be more subjective and thus more responsive to any individual nuances that may arise from the data collected on each country. This is not to dismiss quantitative research, but rather to suggest I feel it is not best-fitted for my thesis.

3.2 Terminology

Before I begin the discussion regarding my methodology, there is firstly, an issue to be resolved regarding that of terminology. The widespread popularity of the term ‘Celtic Tiger’ to describe the strong economic growth of Ireland in this time period means that its usage in this thesis is almost without question. Unfortunately there is no similar term to describe the economic bubble of Japan during the late 1980s and early 1990s and so I believe it is most expedient to simply refer to this case as the ‘Japanese bubble’. Another admittedly minor issue of terminology is the use of the term Ireland as the name for the country of the Celtic Tiger. Throughout this thesis, the terms ‘Ireland’, ‘Republic of Ireland’ and ‘Irish State’ are used when referring to the 26 counties of the Republic of Ireland. Article 4 of the Irish Constitution states: “The name of the State is Éire, or, in the English language, Ireland.” Irish Statute law (The Republic of Ireland Act, 1948) states that “the description of the State shall be the Republic of Ireland”. In the United Kingdom, the Ireland Act 1949 provided that "Republic of Ireland" may be used as a name for the Irish State. However it did not make use of the term mandatory. Since the 1998 Good Friday Agreement (major development in the

[36] Joubish, ‘Paradigms and Characteristics of Good Qualitative Research’, World Applied Sciences Journal, Vol.12, Issue 11, pp.2082

Northern Ireland peace process), the United Kingdom has accepted the name 'Ireland' for the Irish State and uses that name in international agreements with the Dublin government.[37] It is this term which will be used to refer to the Irish case.

3.3 Qualitative Research

What approach to adopt was the first major decision I faced regarding methodology.. As I mentioned before, qualitative research is a research method which is chiefly concerned with an understanding of human behaviour, and what factors govern such behaviour.[38] Focused more upon understanding phenomena and understanding social issues, rather than producing clear quantifiable results, qualitative research is often categorised as giving broad, sometimes subjective, answers from its studies.[39] Due to this focus, qualitative research often employs smaller sample sizes than is the case in large quantiative studies; the small sizes being compensated for by a greater focus upon each case surveyed.[40] Given the fact that my thesis only employs a sample of two individual cases, Japan and Ireland, and is not so focused upon statistical data, the attraction of such research is readily apparent. In contrast, quantitative research is frequently regarded as being more concerned with producing findings arrived at by means of statistical procedures or other means of quantification.[41] As the research question of my thesis is somewhat subjective and not easily expressed through numerical data, I feel that a qualitative approach is the most suitable fit for me. Naturally, given the nature of the topic of this thesis I shall pay some attention to numerical variables derived from quantitative data However, I believe that such a crossover is natural, nay inevitable for "qualitative research will always involve quantitative elements and vice versa".[42]

3.4 Collective Case Study

Another key issue to address was as to what particular form this thesis, and after much deliberation I decided to carry out a case study. A case study, as described by Punch, is a

[37] Hobbs, 'Young People as Active Citizens: Placing Youth Participation Structures in the Republic of Ireland under Critical Scrutiny',
[38] Holliday, 'Doing and Writing Qualitative Research', pp.1
[39] Silverman, 'Doing Qualitative Research', pp.9
[40] Ibid, pp.330
[41] Ibid, pp.117
[42] Ibid, 119

study in which one case, or perhaps a small number of cases, is studied in detail with a general objective of trying to develop as full an understanding of the issue as possible.[43] Case studies can also be subdivided into three different categories, being: intrinsic; instrumental and; collective.[44] For the purposes of this thesis I decided to employ a collective case study. Defined by Stake as being a study in which "a number of cases are examined to investigate a general phenomenon", such an approach directly tackles the issue of generalisation, which will be addressed below, by demonstrating the differences and similarities between two cases.[45] I feel that such an approach fits well with the research aim of my thesis, as through studying they two cases of Japan and Ireland in depth, my overriding research aim is to gain an understanding of the general phenomenon of their economic bubbles.

3.5 Issue of Generalisation

One of the major problems facing researchers when conducting any form of study is that of generalisation, to infer an overall conclusion regarding an issue despite only viewing certain facts, examples or statistics. When examining an issue, it is virtually impossible to examine every facet of that issue, rather certain aspects, seen as relevant and providing a balanced view, are chosen with the aim of providing the researcher with a satisfactory conclusion. It is the prerogative of the researcher therefore, to select aspects, or cases, to study which present a full and balanced view of the issue being studied and prevent over-generalisation, a process referred to as 'sampling'.[46] Similarly to case studies, there exist different varieties of sampling, however for the purposes of this thesis I chose purposive sampling.[47] A purposive sample is one which is selected due to the purpose of the study, with all subjects being selected due to some characteristic.[48] As my two cases of Japan and Ireland are so central to my research aim, I believe this sampling refers more to my choice of variables to compare the two countries. These variables will be further outlined in this chapter so I will avoid discussing them in depth here, however they were all chosen as I believe as they are both

[43] Punch, 'Introduction to Social Research: Quantitative and Qualitative Approaches', pp.150
[44] An intrinsic case is when a single case is studied in detail, with no attempt being made to generalise beyond it. In contrast a collective case study is where a number of cases are studied with an aim of understanding some general phenomenon.
[45] Stake, 'Handbook of Qualitative Research: Case Studies', pp.437
[46] Silverman, 'Doing Qualitative Research', pp.139
[47] Ibid, pp.141
[48] Ibid

indicative of economic performance and can be witnessed in both countries, thus facilitating a comparison. It is these two aspects that is their common characteristic.

3.6 Deviant Sampling

The final note I shall add regarding case studies and sampling, is that of deviant sampling. Deviant cases are cases that do not fit into regular patterns of attitude or behaviour within an issue and their study can often provide researchers with a better understanding of more regular patterns and the issue as a whole.[49] I believe in my case, this refers to variables in which Ireland and Japan differ. Again these will be discussed further in this chapter, however in my chapter regarding the Japanese case I explore a number of variables in which the two countries differ. By doing so I believe that I gain a deeper understanding of my research issue as a whole, and additionally avoid claims of selecting cases merely to suit my conclusions.[50]

3.7 Motivation for Subject

As I briefly mentioned in the introduction for this thesis, perhaps the key factor for my interest in, and decision to write my thesis about, this topic was due to its seemingly increasing relevance. When I began university in the Republic of Ireland in September of 2008, the Irish Celtic Tiger era was to drawing to a close with the Irish states guarantee to six major banks later that month signalling its definite end. Around this time period it was common to read or hear from various media sources how the death of the Irish Celtic Tiger was similar to that of the Japanese economic bubble fifteen years previously, not only during the growth period but also in the subsequent bursting of the Japanese property bubble which Ireland looked likely to match.[51] I found such comparisons fascinating, yet also noticed how they often were somewhat anecdotal, with few 'hard studies' done to justify such comparisons. Thus when the time came to select my thesis topic, I was reminded of these comparisons, wondering if such comparisons were indeed justified. This also led me to the research aim of my thesis: if the two cases were indeed so similar, then surely the Irish state might have taken lessons from the Japanese example some fifteen years previously? This

[49] Ibid, pp.146
[50] Ibid, pp.141
[51] McWilliams, 'Japan's housing slump was scary, and ours could be too',

then was to be the chief motivation for undertaking this study and the question that percolates each page of this work.

Therefore, when it came to writing my thesis, in theory my task was straightforward - simply compare the Irish Celtic Tiger to the Japanese property bubble, note similarities and differences and conclude whether the Japanese case did indeed provide lessons for the Irish example. However, in practice such a comparison proved not quite so simple given the obvious differences between the two cases, these including: disparity in size between the two countries, both geographical and economic; demographic differences; differences in the history of economic development in each country and finally the differing time periods of both examples. Therefore, I had to find a way to enable to satisfactorily compare what, on the face of it, are two strikingly different countries.

3.8 Form and Layout of Thesis

This was achieved in a number of overlapping rather than discrete stages. Firstly, I established a list of more general variables between Japan and Ireland to assist me in my comparisons and contrasts and also to provide some form of background to the reader regarding both countries. Following this, I then drew up a list of more economic variables to compare the two countries, in order to provide crucial background data regarding each country's bubble. Variables to compare Japan and Ireland were: past economic history; political history; size of country and range of population and historic role of the state within the economy. The economic variables employed were: growth in property prices versus national inflation; affordability of property and the role of the financial sector within both nations. Naturally attention was also paid to the ways in which the two cases differed lest I inadvertantly mighte ignore differences'. Contrasting factors included disparity in the sizes of both countries and their economies, structure of both economies and demographics. Finally, the role of both governments in their respective bubbles is also given attention as this is perhaps the key focal point of the thesis, and again provides more background to the reader.

I chose the above variables as I believed that they would best assist me in accurately addressing my research aim. As my research aim does not easily identify with a given academic field, for example political science or economics, it was somewhat challenging to carry out such a study. However, I feel that this enabled me to 'borrow the best of practices' from a number of academic fields as my thesis was not strictly tied down to one distinct area, and also taught me a great deal about various disciplines as I sought to establish which was the best fit for my particular study. When it came to gathering my variables, obviously the general variables were quite easy to find as I could use readily available histories of the two countries or simply draw from personal knowledge backed up by data derived from reputable sources such as the Central Statistics Office of Ireland. When it came to finding the economic variables, I was lucky as the Irish Central Statistics Office makes available numerous statistics relevant to the Irish economy, as do major Irish banks such as Allied Irish Bank and Bank of Ireland.

This is not so true for the Japanese case and initially provided me with some trouble; however I was able to overcome by utilising sources such as the International Monetary Fund, World Bank and through emailing a real estate agency named Japan Property Central, who were kind enough to reply to my query with information regarding historic property affordability in Japan. Such difficulty in procuring statistics regarding the Japanese case was somewhat surprising, and with the benefit of hindsight (always 20-20 vision) I would allow myself more time to gather this type of data in a future research study   Nevertheless, the data obtained on each country did allow me make interesting comparisions between them both

3.9 Time Period Discussed in Thesis

An important decision in the writing of this thesis was also to clearly define the time period of both cases that would be used in this dissertation. For the Japanese case I chose to take the signing of the Plaza Accord in 1985 as my starting point with the year 1991 being my ending point. I chose these as the Plaza Accord is recognised as leading to a significantly strengthening the Yen during the 1980s, itself a contributing factor to the Japanese property bubble, and generally is regarded as when property prices began to exceed their fundamental value.[52] 1991 is a convenient ending point as this is the year where interest rates were significantly raised and property prices first began to fall.[53] In the Irish example, I chose the year 1995 as a starting point as it was the year after the term 'Celtic Tiger' was coined, by

[52] Obstfeld, 'Time of Troubles: the yen and Japan's economy, 1985-2008',
[53] IMF, 'World Economic Outlook', pp.52

Morgan Stanley economist Kevin Gardiner, and it was also during this time that the impressive growth of the Irish economy began to attract global attention.[54] As the Irish case is still somewhat unresolved, I chose to take the signing of a bailout treaty with the IMF in November 2010 as a convenient ending point. Given the focus of this thesis is to ascertain what action could or perhaps *should* have been taken by the Irish government; I feel it is appropriate to use this event as a closing point. Additionally it also marked the passing of complete economic autonomy out of the state's hands, as the combination, or 'troika', of the IMF, European Commission and European Central Bank who funded the recused package for Ireland, began to direct economic policy for the nation.[55] In both cases there shall occasionally be mention of events which take placed beyond the aforementioned timelines, for instance the Asian Financial Crisis of 1997. However, these are occasional and brief and only take place where I deem it necessary and relevant.

With the aims of aims and research question of this thesis now clearly identified as well as the manner in which I sought to carry the study out I move now to discuss the Irish property situation from 1995 until 2010 and the Japanese economic bubble from 1985 to 1991, beginning in the following chapter with the Japanese case.

[54] The Guardian, 'Celtic Tiger licks its wounds as Ireland's boom crumbles',
[55] The Guardian, 'Ireland Bailout: full Irish government statement',

Chapter Four: Japanese Economic Bubble, 1985-1993

4.1 Recent Economic History of Japan

The tale of Japan's extraordinary economic in the decades following the Second War is well-known and requires little further elaboration here. Through a combination of factors such as aid and assistance from the United States, strong bureaucratic and education systems and government direction from ministries such as the Ministry of International Trade and Industry (MITI), Japan managed to regain pre-war production levels by the mid-1950s.[56] Indeed during the period 1953 to 1965, annual GDP growth averaged over nine per cent with Japan rated as the world's second largest economy, according to GNP, by 1968.[57] This period of high growth is usually recognized as being ended with the coming of the First Oil Crisis of 1973, which coupled with the US termination of the convertibility of the dollar to gold two years previous, seemed to challenge the Japanese method of export-led growth. However through efforts by the state and bureaucratic institution such as the MITI, Japan avoided the stagnation that beset other nations, with GDP growth averaging three and a half per cent for the remainder of the decade.[58] Indeed Japan also began to shift its economy, while the export sector continued to underpin the economic stability of the nation, domestic consumption began to play a greater role-though reservations began to be aired concerning the degree to which certain less efficient industries such as textiles and steel were subsidized.

A new period of economic growth, and the focus for this thesis, was ushered in with the Plaza Accord of 1985, broadly speaking an agreement amongst the then G5 countries who decided the US dollar was overvalued. Essentially the goal of the accord was that countries running surpluses, namely Japan and West Germany, would seek to boost domestic demand and allow their currencies to appreciate.[59] Accordingly the Plaza Accord triggered a large appreciation in the value of the yen, amounting to thirty per cent by the end of 1986-with the Deutsch Mark rising similarly. As a result of the new stronger currency both Japanese exports and GDP growth dramatically slowed in the first half of 1986, with the six months being termed

[56] Takafusa, 'Lectures on Modern Japanese Economic History 1926-1994', pp.176
[57] Hamada, 'Japan 1968: a reflection point during the economic miracle',
[58] Takafusa, 'Lectures on Modern Japanese Economic History 1926-1994', pp.265
[59] IMF, 'World Economic Outlook April 2011', pp.3,

the 'Endaka Recession'.[60] Under considerable public pressure to reverse this trend, authorities responded with a large macroeconomic stimulus package coupled with reduction in the interest rate by three percentage points. Resultantly by the following year the economy recovered with stock and urban property prices tripling by the end of the decade when compared to pre-Plaza levels.

This rise in property prices, especially in the Tokyo region, had begun to cause national concern-even as early as the post-Endaka recession recovery period.[61] Two investigation committees were summoned that year, with both summarising that the rise in land prices was significantly higher than should be expected and would need to be significantly slowed were a major property bubble to be avoided. This rise in prices of Tokyo property began to both show itself in property prices in other major urban areas and to be mirrored in the value of the Nikkei Index.[62] The national government decided that it needed to act and by reducing the continuing rise in property prices, an economic bubble would be avoided. Tax reforms were introduced, most notably in 1987 and 1988, designed to reduce the attractiveness of property ownership, however despite these introductions, land prices, and additionally those of stock indexes, continued to rise unabated with apparently no end in sight.[63]

This, seemingly never-ending, trend of rising prices was finally curtailed however by the rising of interest rates. Rates which stood at 2.5 per cent in 1987, a level which had been constant for the decade, rose first to 4.5 per cent in December 1989 and then 6 per cent in August the following year.[64] This tightening of interest rates had a dramatic effect, curbing lending within the property sector, leading to falls of first stock values and later those of property. Given the extent to which the wider Japanese economy's fares were intertwined with those of property and the stock index, their declines unsurprisingly transmitted to the rest of the economy. Private fixed investment annually fell by over two per cent on average for the rest of the decade and growth GDP averaged 0.5 per cent, a dramatic fall from a growth rate of 4 per cent for the previous decade.[65] These and other indicators led to Japan's economic performance during the 1990s being termed 'The Lost Decade'. The actual events of the rest

[60] Garside, 'Japan's Great Stagnation', pp.62
[61] Mera and Renaud, 'Asia's Financial Crisis and the Role of Real Estate', pp. 27
[62] Ibid, pp.31
[63] Ibid, pp.38
[64] Ibid, pp.39
[65] Yoshikawa, 'Japan's Lost Decade', pp.8

of the 1990s in Japan are not significantly relevant to the objective of this thesis and will only be paid cursory attention, with most attention being directed towards the role of the Japanese government both during and directly after the bubble and to what extent this can be compared with Ireland.

4.2 Comparison with Ireland

The following portion of this chapter will to be to establish the grounds upon which Japan and Ireland, focusing not only on economic factors but also cultural and historical. An investigation of the state of certain economic variables as listed previously in the methodology section will be made later in this chapter, however firstly I shall more generally compare and contrast Ireland with Japan so as to provide the reader with a contextual background. Establishing these commonalities will assist the writing of this thesis by justifying the comparison between Ireland and Japan, and explaining why these two countries were chosen. Firstly however, in order to avoid claims of a 'circumstantial comparison', I will first give mention to significant contrasts between the two.

The major difference that springs to mind is that of the disparity in size between Ireland and Japan, both physically and in terms of population. Japan's territory of 378,000km² dwarfs the 70,000km² of Ireland, while the population disparity is greater: Japan's population stands at 127 million while Ireland's is merely 4.5 million.[66][67] Perhaps even more pertinently, the demographic structure of these populations is differs significantly, Ireland has a population that has an average age of 35.1 years, is growing at 1.112 per cent[68] and of whom thirteen per cent were born outside the island of Ireland. In marked contrast the Japanese population is averagely aged 45.4 years, is declining at a rate of .077 per cent and is ninety-eight per cent ethnically Japanese.[69][70]

[66] CIA, 'World Factbook: Japan',
[67] CIA, 'World Factbook: Ireland',
[68] A rate which fails to take into account recent emigration-another significant difference between the two populations.
[69] CIA, 'World Factbook: Japan',
[70] CIA, 'World Factbook: Ireland',

There are also significant economic differences between the two countries, namely that of savings rates. During the 1980s Japan was well known for having one of the highest savings rates in the world, while Celtic Tiger Ireland was similarly known for having one of the lowest.[71] The economic history of the two is also quite different: the Japanese bubble came on the back of, save for the destruction wrought by the Second World War, over a century of continued growth following the Meiji Restoration; in contrast the Celtic Tiger was arguably the first instance of real economic growth Ireland had experienced since prior to the Act of Union in 1801.

Despite these differences, I believe that there are also a number of significant similarities between the two countries to allow us to make this comparative study. Given the physical disparity between the two countries, the Japanese economy naturally dwarfs that of Ireland; however on a per captia basis there exist a strong number of comparable factors. Both countries enjoy living standards among the highest on the United Nations' Human Development Index; Ireland's 7th placing of 0.916 being slightly higher than the Japanese 10th place of 0.912, GDP per captia is broadly similar standing at $39,638 for Ireland and $36,179 for Japan.[72] [73] When this comparison is made between the two periods of question for this thesis, the similarity between Ireland and Japan is also significant: adjusted for inflation the GDP per captia ratings for both countries at their respective peaks-1990 for Japan and 2007 for Ireland-are $50,200 for Japan and $48,300 for Ireland.[74] [75]This scenario can be seen in performance of both countries in the HDI at their respective peaks: in 1990 Japan had the highest rating with 0.996 while Ireland in 2007 had a rating of 0.959 which earned it 5th place. [76][77]The average GDP growth rate for both countries during their bubble periods is also similar, between 1985 and 1990 the Japanese economy averaged growth of 4.53 per cent which is similar to that of Ireland between 1997 and 2007, which averaged 4.8 per cent.[78][79]

71 McWilliams, 'The Pope's Children: Watch Online',
72 UN, 'Human Development Report 2013', pp.16
73 Trading Economies, 'List of Countries by GDP Per Captia',
74 Both in 2011 US dollars
75 World Bank, 'GDP Per Captia',
76 UN, 'Human Development Report 1990'
77 UN, 'Human Development Report 2007/8'
78 Garside, 'Japan's Great Stagnation', pp.84
79 World Bank, 'GDP Growth (annual),

Beyond the economic comparisons, there also exist a number of cultural, historical and geographical factors that are, perhaps surprisingly, similar in both cases. Both countries are obviously island nations on the extremities of Eurasia with four major provinces, one of which-Ulster in the Irish case and Honshu in Japan's-is considered for various cultural and political as somewhat distinct from the other three. Both Ireland and Japan are dwarfed by a much larger neighbour, with a ten-to-one population ratio, who at various times has attempted, or succeeded, to extend control over its smaller neighbour, and who still retains both economic and cultural significance. This parallel can also be strengthened by considering the presence of nearby smaller nations who have more similarity to our two cases than their large neighbours, Korea in the Japanese case and Wales and Scotland in the Irish.[80] While their sizes differ dramatically, both Ireland and Japan possess diasporas whom are recognised as being distinct from 'other foreigners' and treated accordingly, another example of cultural similarities shared by the two nations.

A perhaps more relevant comparison is that of the political culture of the two nations, both employing a two-house parliamentary system led by a somewhat symbolic figurehead who lacks real power, the Emperor of Japan and President of Ireland. However it is the existence of a 'party of power' in both countries which I believe is the strongest similarity. While neither the LDP or Fianna Faíl are currently in power, both have enjoyed significant spells in government since the end of the Second World War and share a similar electorate as their main support. This similarity I feel is one of the strongest when comparing Ireland and Japan, especially when considering the objective of this thesis as both 'parties of power' played a significant role in the bubbles of their respective nations.

While it may seem like the above points comparing Ireland and Japan are somewhat circumstantial and a similar comparison could be made between any two random countries in the world, I believe that there do exist significant comparable aspects between the two nations-as Brillet's explanation of why the term 'Celtic Tiger' was chosen to symbolise the Irish example illustrates.[81] In any case I believe the above more general comparative aspects have provided background and will now examine a series of more economically pertinent variables as discussed in the earlier chapter. These variables shall provide more of an

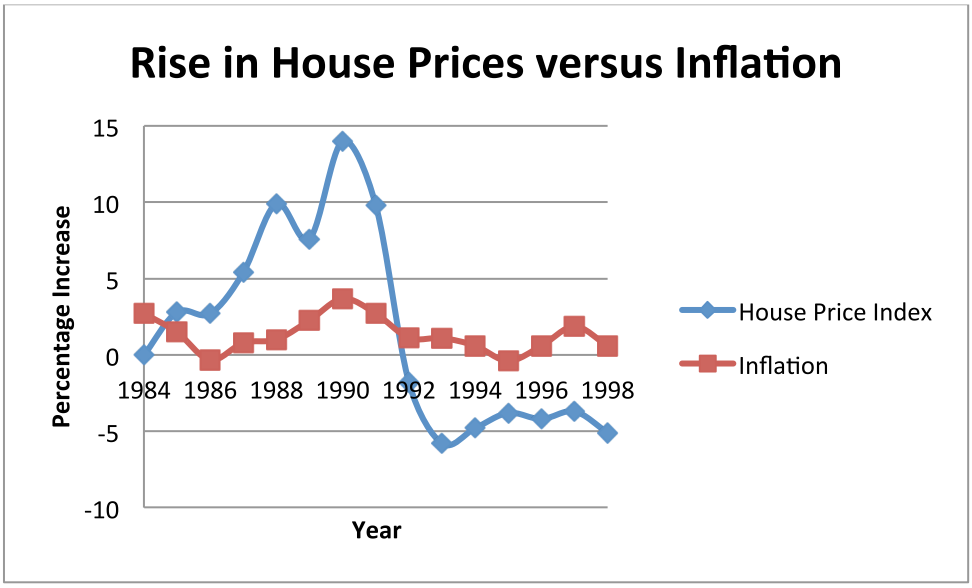
[80] Brillet, 'Ireland and Japan-the search for the tiger', Irish Geography, Vol.38, No.2, 2005, pp.229
[81] Ibid, pp. 226

objective background and allow us to properly ascertain how similar the bubbles of both of our cases are.

4.3 Economic Variables

The first variable to examine is that of House Price Index in comparison with general national inflation. The significance of this variable is easy to understand as it simply measures the rise in property price versus overall price rises in the economy. This thus allows the reader to establish whether property price rises are irrational and unsustainable and thus forming a 'bubble', or whether they are simply in line with a general increase in the cost of living in a country. The House Price Index versus Inflation for Japan in the period 1984 to 1998 can be seen below in Figure 3.1, clearly demonstrating how property prices exceeded the rate by which they might be expected to increase if adhering to general inflation.

Figure 4.1[82][83]



Such a disparity between the two rates should not be surprising given that the property market, as shall be expanded further on in this chapter, were one of the key markets available

[82] Mera and Renaud, 'Asia's Financial Crisis and the Role of Real Estate', pp. 29
[83] Inflation.eu, 'Historic Inflation Japan',

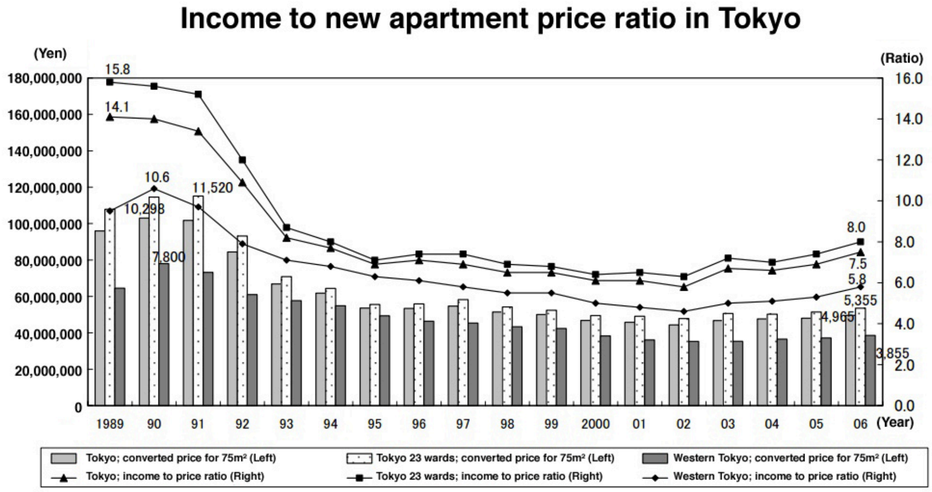
for investment by banks, thus Japan can be clearly seen as having had a property bubble- further demonstrated by the abrupt drop in prices following the zenith of 1991. The effect of such raising property prices is well-known; home-owners feel more confident about their financial prospects which is reflected in consumer spending, a 'last to get on the train' mentality pervades which thus sustains an expanding bubble of rising house prices which eventually bursts once house prices exceed too far beyond their 'natural' amount.[84] In cases such as Japan where house prices dramatically exceed inflation, property is seen as an even surer bet for returns on investments which in turn exacerbates the severity of the bubble and makes its eventual bursting all the more damaging.

The second variable to examine is that of house price to income ratio. Generally expressed as the ratio of median house prices versus median income in either percentage or as years of income, it is regarded as a basic affordability measure for housing in a given area.[85] Its appeal lies in its inherent simplicity, as it is easily apparent how expensive property is to purchase for a population. Thus we can quite easily establish whether a nations housing market is experiencing an economic bubble. The exact ideal value of a price to income ratio is difficult to establish as it can differ greatly between various countries, however a ratio of seven is often regarded as the upper threshold for a ratio in a market in which property is still somewhat affordable for the general population, while a ratio above ten indicates a market experiencing a severe bubble. The graph on the following page, Figure 3.2, illustrates the historic price to income ratio for Tokyo in the period 1989 to 2006.

[84] Amrine, 'Origins and characteristics of recent residential bubbles', Undergraduate Economic Review, Vol. 7, No.1, 2010, pp.4

[85] Reserve Bank of Australia, 'Bulletin December Quarter 2012', pp.13,

Figure 4.2[86]



Upon quick observation of this graph it is easy to note how the Japanese property market was in a bubble period, reaching its zenith in 1991 before subsequently falling. The ratio of 11.52 for Tokyo as a whole, with certain areas having a value as high as over fifteen, represents a strongly inflated property bubble with subsequent falls being as low as under five further illustrating this. In the following chapter I shall compare this ratio with that of Ireland, seeking to establish how similar the severity of property bubble was in both countries.

The final variable to compare between the Irish and Japanese cases is that of the role played by the banking sector in both countries. As has been outlined previously in this chapter a major factor in the inflation of the Japanese bubble was the strength of the nation's financial institutions, itself partly due to the strength of the Yen and traditional high savings rate. Such health and easily obtainable credit fuelled growth in both stocks and the real estate market, and facilitated a lax loaning policy. Despite the decline in value of the Nikkei stock index following the climb-down in property prices as the Japanese bubble burst at the beginning of the 1990s, the Japanese financial sector still outwardly appeared in rudimentary health, as banks were kept afloat so as to maintain consumer confidence.[87] Throughout this decade loans with a low guarantee of being repaid were still made, as so-called 'zombie banks', loss-making banks which were kept artificially alive, became increasingly common. These factors

[86] Made available courtesy of Zoe Ward at Japan Property Central
[87] Yoshikawa, 'Japan's Lost Decade', pp.58

were finally brought to a close with the Asian Financial Crisis of 1997; Japanese banks had been among the key financiers in the South East Asia, providing over forty per cent of loans within the region.[88] In contrast to the period following the bursting of the asset price bubble at the beginning of the decade, the Japanese state proved unwilling to assist banks in poor condition, allowing recognised institutions such as Sanyo Securities and the Hokkaido Takushoku bank to fall.[89] The fallout from the 1997 Financial Crisis forced the close of numerous zombie banks, pushed the economy back into recession after two years of tentative growth and in many respects marked the nadir of the Japanese bubble.[90]The role of financial institutions during the Japanese bubble intensified the expansion period of the bubble, and hindered swift recovery during the subsequent bursting phase, both of which were somewhat due to overly-lax lending policy, behaviour which will be seen in the following chapter when discussing the Irish case.

After having gone through the explanatory variables of the Japanese case, I will now pay some attention to analysing the role of the Japanese state, both during and after the bubble. Such analysis is especially relevant given the goal of thesis is to somewhat compare government roles. Before beginning such an analysis however, it is necessary to provide some context of the role of the Japanese state in its economy by briefly discussing its historical involvement in the economy.

4.4 Role of State in Economy

Traditionally the Japanese state's economic policy has been far from *laissez faire,* with state involvement in the economy dating from the as early as the Meiji era-where government activities often exceeded 40 per cent of total investment.[91] This continued following the Second World War, with in particular the Ministry for Trade and Industry (MITI) being heavily involved in shaping industrial policy. Such state direction was often regarded as being a distinctive feature of the Japanese economy, and instrumental in its success-helping Japan

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[88] Goldstein, 'Asian Financial Crisis: Causes, Cures and Systematic Implications', pp.21
[89] Garside, 'Japan's Great Stagnation', pp.121
[90] Ibid, pp.134
[91] Jansen, 'The Making of Modern Japan', pp.374

weather storms such as the First and Second Oil Crises relatively better than other OECD countries.[92]

As discussed earlier in this chapter, the Plaza Accord of 1985 marked a new period in Japan's economic history as a sharply rising Yen threatened to end the traditional export-led growth model, similarly it also marked a new period of state involvement in the economy.[93] As exports were seemingly threatened by the strong Yen and with confidence spooked by the Endaka recession, Japan sought to offset such potential declines and fuel future growth by increasing domestic consumption-interest rates were lowered and financial liberalisation was undergone so as to encourage the flow of money through the system.[94] Such liberalisation made it easier to borrow from abroad, placing pressure on the traditional Japanese system of relational banking. Faced with declining returns from traditional areas, banks responded with aggressive lending in order to find new borrowers and heavy focus onto one of the few fields left open to investment-the property market.[95]

The growth in property prices had been a concern to the national government since the beginning of the 1980s given the degree to [96]which it outpaced general growth in GDP, as has been demonstrated earlier in this chapter. One of the more significant measures taken was a decentralisation policy expressed by the government in 1982, a policy which by seeking to spread property growth between various urban areas sought to constrain excessive inflation in property prices.[97] However this policy was seemingly contradicted by the desire to expand Tokyo as a major international financial centre, a desire explicitly expressed in late 1980s.[98] Such promotion of Tokyo coupled with the relative paucity of investment options available to Japanese banks resulted in the continual rise of property prices-especially in major urban areas. By the end of the decade this rise had led to such concern amongst policymakers that the state decided to tighten monetary policy in order to curb such land price inflation, raising

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[92] Takafusa, 'Lectures on Modern Japanese Economic History, 1926-1994', pp.282
[93] IMF, 'World Economic Outlook April 2011', pp.3,
[94] Mera and Renaud, 'Asia's Financial Crisis and the Role of Real Estate', pp. 34
[95] Yoshikawa, 'Japan's Lost Decade', pp.57
[96] This can also be seen in the decentralization policy of the Irish government during the Celtic Tiger, where in a seeming contradiction investment in Dublin was heavily promoted while the state maintained a successful decentralization policy was being undertaken.
[97] Aoki, 'Decentralisation and Intergovernmental Finance in Japan', pp.15,
[98] Shirai, 'Promoting Tokyo as a major international finance centre', pp.3,

interest rates in May 1989 from 2.5 per cent to 3.25 per cent thereby beginning an fifteen month course of action that would see rates standing at 6 per cent in August 1990.[99]

At such time there was certainly recognition of the fact that the Japanese economy had excesses needing correctly but few expected that the coming decade would be dominated by sluggish economic performance and a deepening financial crisis. In December 1989 the Nikkei Index stood at 39,957.44, marking the zenith of the Japanese economic bubble, seemingly it seemed little could go wrong with the Japanese economy.[100] However the tightening of interest rates had more of an effect that merely curbing lending in the property sector, rather it resulted in dramatic deflation of both stock and land prices and a deterioration of the balance sheets of the large financial institutions and corporations which had dominated the economy since the end of the war. In response to this downturn interest rates were lowered from 5.5 per cent in July 1991 to 3.25 twelve months later, and subsequently would be reduced to as low as 0.5 per cent in September 1995.[101] However despite such a reduction in interest rates the economy continued to languish, suggesting that the authorities seemed to have underestimated the depth of the problems facing the economy.

A key criticism of the Japanese government in this period is its slow reaction to the crisis facing the nation's banks, allowing financial instability and fragility to fester until a full-scale crisis in the financial sector was to emerge in 1997. In contrast Garside points to the example of the Swedish banking crisis during a similar time period where the Swedish government sought swift corrective action, nationalising failed banks and seeking to minimise loan losses to a two year period from 1991 to 1993 whereas in the Japanese case, loan losses consistently exceeded operating profits until the end of the 1990s.[102] These loan losses were in some part explained by the existence of so-called 'zombie loans'-banks loaning to troubled businesses with whom they had links and showed little prospect of improvement or repayment. Such loans to the distressed property and constructed sectors in fact exceeded loans to all other sectors in the decade following the bursting of the Japanese bubble.[103] Finally the economic

[99] Mera and Renaud, 'Asia's Financial Crisis and the Role of Real Estate', pp. 46
[100] Ibid, pp. 32
[101] Garside, 'Japan's Great Stagnation', pp.83
[102] Ibid, pp.85
[103] Ibid, pp.90

situation in Japan was exacerbated by the continual rise of the Yen, which hampered exports and assisted in pushing the economy further into stagnation.

4.5 Role of LDP in Bubble

An aspect of the state's involvement during the bubble period, and one which is reflected in the Irish example as we shall see in the following chapter is the fear that the governing Liberal Democrat Party (LDP) had of upsetting their electoral support. Traditionally the party's support has come from rural conservative voters, which might also have been a factor for the desire during the 1980s to limit centralisation, and the fear of potentially causing voters to lose their employment may explain the lack of a crackdown on the zombie loans discussed above. Both the Ministry of Finance (MOF) and Bank of Japan (BOJ) appear to have been aware that a large number of institutions were either undercapitalised or at risk of insolvency but privately avoided action and publically downplayed the severity of the problems.[104] Such failure to adequately curb the 'sham performances' of many financial institutions came to a head in 1997 when the range of bad loans possessed by many Japanese banks were exposed by the Asian Financial Crisis of that year. Established companies such as Sanyo Securities and the Hokkaido Takushoku bank were bankrupted, causing unprecedented economic disruption.[105] Against this backdrop as numerous commercial banks were being cut off from access to credit the government launched in February 1998 what was to become a series of injections of public funds into the economy.[106] However despite such action the response was neither sufficient nor properly targeted and the fundamental problems in the financial sector remained leading the so-called 'Lost Decade' to become 'Decades' as growth during the 2000s failed to meet that of previous decades before the bubble.[107]

Through the course of this chapter I provided background to previous historical Japanese economic performance, analysed important variables relating to the bubble and recounted the role of the state during both the bubble and its subsequent crash. Therefor I believe that the first actor of this comparison has been adequately dealt with. In the following chapter I shall

[104] Yoshikawa, 'Japan's Lost Decade', pp.58
[105] Garside, 'Japan's Great Stagnation', pp.121
[106] Walter, 'From developmental to regulatory state: Japan's new financial regulatory system', Pacific Review, Vol.19, No.4, 2006, pp.411
[107] Yoshikawa, 'Japan's Lost Decade', pp.1

discuss the Celtic Tiger in Ireland, examine the same variables dealt with in this chapter in the Irish case and similarly examine the role of the Irish government during its nations bubble period before attempting to draw conclusions in the closing comparative chapter.

Chapter Five: Celtic Tiger of Ireland, 1995-2010

5.1 Recent Economic History of Ireland

After having analysed the economic bubble experienced by Japan in the previous chapter, attention is now to be turned towards that of the Irish case. A major contrast between the Irish Celtic Tiger and Japanese Bubble is the respective economic history experienced by countries prior to their bubbles. While Japan's bubble followed decades of strong growth, the Celtic Tiger was the first sustained period of real economic progress in Ireland since the signing of the Act of Union in 1801.[108] Since gaining independence from the United Kingdom in 1922, Ireland had been one of the worst performing economies in Europe, being described in the 1980s as "the sick man of Europe".[109] The Irish economy in the 1980s was mired in stagnation exacerbated by a poor economic climate in Great Britain to which the Irish economy was still largely dependent upon. However the seeds for future growth were sown by a bi-partisan agreement, known as the 'Tallaght Strategy', enabling both parties to introduce policies relating to economic and welfare reform, investment in education, lowering of taxes and reduction in borrowing.[110]

Such reforming policies, coupled with a devaluation of the *punt* in 1993 and the beginning of a series of social partnership agreements designed to limit excessive growth in wages, began a turnaround in the Irish economy, leading economist Kevin Gardiner in 1994 to compare Ireland with the well-known 'Asian Tigers' and dub the country's impressive growth the 'Celtic Tiger'.[111] External factors such as funds from the European Union and increased investments from the US allied with Ireland's well-educated, English speaking and comparatively cheap labour force, resulted in average annual growth of over seven per cent until the turn of the millennium. By the end of the turn of the millennium Ireland's staggering economic performances stood in marked contrast to the relative insipid growth and

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[108] McWilliams, 'The Pope's Children', pp.3
[109] McWilliams, 'The Generation Game', pp.8
[110] Irish Independent, 'New Tallaght Strategy needed to solve crisis',
[111] The Guardian, 'Celtic Tiger licks its wounds as Ireland's boom crumbles',

unemployment rates of the rest of the EU and was described by the Economist in 2001 as "an economic miracle".[112]

The Celtic Tiger's momentum was temporarily slowed in 2002 due to a decline in the global economy, and more principally the IT industry in which Ireland was a major player. Ireland was also affected by a reduction in its economic competitiveness due to factors such as rising wages, rising insurance premiums and a strong Euro all of which hit exports to traditional Irish markets such as the US and Great Britain and saw outsourcing of traditional industrial jobs to lower-cost markets.[113] However this downturn was a slowdown rather than a recession with signs of a recovery apparent in late 2003 as investment levels from the US increased again. However rather than being based on a competitive labour force and increases in productivity, this second Celtic Tiger was largely dependent on a deregulation of the financial sector and a burgeoning housing market. Traditionally a net emigration nation, Ireland now found itself the recipient of migrations as the European Union expanded from fifteen to twenty-five states in 2004, benefitting from an influx of new inexpensive, well-educated migrants which to some extent compensated for Ireland's loss in competitiveness.[114] Ireland again was receiving plaudits and drawing envious glances for its flourishing economy, with Scotland's First Minister Alex Salmond declaring ambitions for his country to mirror Ireland's success and become a "Celtic Lion".[115] However the continuation of the Irish boom was not without criticism, with sceptics arguing that the economy was overly dependent upon the construction industry which employed over 12 per cent of all employed in the state, had allowed its exports sector to stagnate and its competitiveness had worsened.[116]

By the end of 2007 sales within the property market had markedly slowed which cast doubts on the durability of the Irish economy. In the budget of that year both the economy and government finances began to demonstrate signs of an impending recession, tax revenues fell five per cent short of predictions which resulted in €2.3 billion surplus of the previous year

[112] The Economist, 'Ireland Shines'
[113] McWilliams, 'The Generation Game', pp.31
[114] Irish State, 'Immigration Act 2004',
[115] BBC, 'Salmond gives Celtic Lion vision',
[116] IMF, 'Spillovers to Ireland', pp.3,

being struck from government books.[117] Following the turn of the year, such signs began to accelerate as unemployment increased from 4 per cent to 6.2 per cent in June of 2008. That month the Economic and Social Research Institute (ESRI) forecast that the Irish economy would, for the first time since 1983, slightly contract that year.[118]

In September of that year Ireland became the first country in the Eurozone to officially enter recession, with a recession being confirmed by GDP following 0.8 per cent in 2008's second quarter. Following this declaration, the Irish government announced that the national budget would be brought forward from its usual December date to October 14th to reflect the new economic situation.[119] However probably the most significant development in this time period was a bank guarantee undertaken by the government on September 29th 2008. Described by the government as covering "all deposits (retail, commercial, institutional and interbank), bonds, senior debt and dated subordinated debt", this blanket guarantee of six major banks was intended to maintain confidence in the banking system and prevent a run on savings deposits similar to that of Argentina at the turn of the millennium. However this guarantee ended up costing the state several times the original estimated amount as hidden nonperforming loans, previously unknown, began to emerge in the months following the guarantee.[120] In particular Anglo-Irish Bank was found to have high levels of non-performing loans, which after emerging in December 2008 lead to the resignations of three executives. A month later with shares standing at 2 per cent of their 2007 value, Anglo-Irish was nationalised by the state due to recapitalisation being deemed too insufficient.[121]

In November 2010, after eighteen months of further deterioration in both the general economy and embattled financial sector, Prime Minister Brian Cowen declared that Ireland had formally requested financial support from the EU's European Financial Stability Facility (EFSF) and the International Monetary Fund (IMF). In the following weeks Ireland became the first Eurozone member to receive a financial assistance package with a loan in the region of €100 billion agreed in the following weeks.[122]

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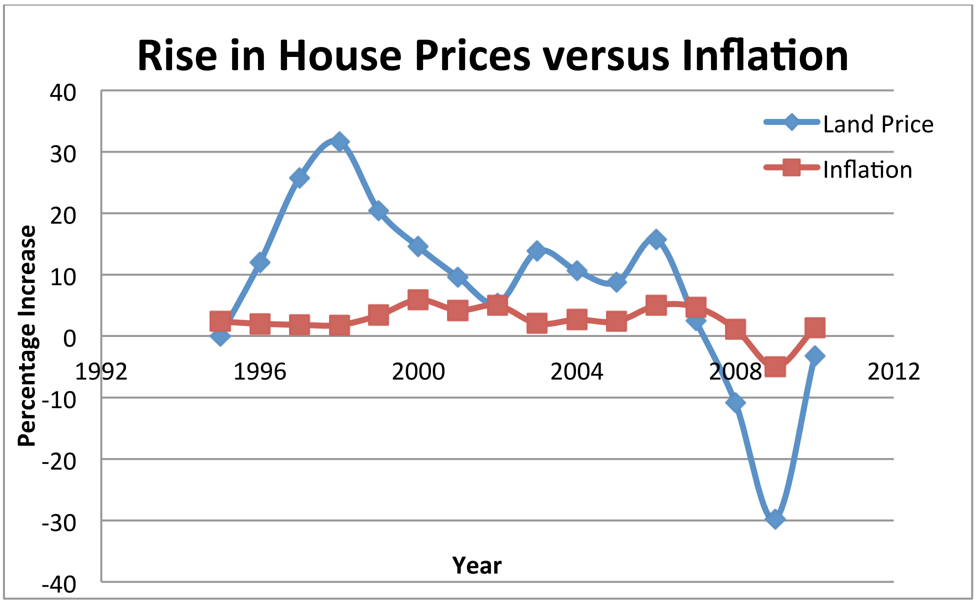
[117] Irish Department of Finance, 'Budget 2007'
[118] ESRI, 'Quarterly Economic Commentary June 2008',
[119] Irish Times, 'Government Statement on Budget',
[120] RTÈ, 'Banking guarantee bolsters Irish market'
[121] BBC, 'Irish bank set to be nationalised'
[122] The Guardian, 'Ireland bailout: full government statement'

5.2 Economic Variables

Following the recounting of the Irish Celtic Tiger, it is now time to direct attention towards the variables concerning the property bubble, beginning as in the previous chapter with a comparison of House Price Index with general national inflation. The significance of this variable is easy to understand as it simply measures the rise in property price versus overall price rises in the economy. This thus allows the reader to establish whether property price rises are irrational and unsustainable and thus forming a 'bubble', or whether they are simply in line with a general increase in the cost of living in a country. The House Price Index versus Inflation for Ireland in the period 1996 to 2010 can be seen below in Figure 4.1, clearly demonstrating how property prices exceeded the rate by which they might be expected to increase if adhering to general inflation. While the exact patterns are not identical, the similarity in distance between annual rises of property value and inflation can be seen in both cases highlighting the depth of the bubbles of both respective countries.

Figure 5.1[123][124]



This disparity between the two rates should not be surprising given that the property market, as was the case in Japan, was the main area of investment in by Irish banks, thus we can see

[123] Inflation.eu, 'Historic Inflation Ireland',
[124] Lyons, 'Taking stock of Ireland's property market',

that similar to Japan, Ireland was clearly suffering from a property bubble-further demonstrated by the abrupt drop in prices following the nadir of 2010. The effect of such raising property prices is well-known and was dealt in the previous chapter; home-owners feel more confident about their financial prospects which is reflected in consumer spending, a 'last to get on the train' mentality pervades which thus sustains an expanding bubble of rising house prices which eventually bursts once house prices exceed too far beyond their 'natural' amount. In cases such as Japan and Ireland where house prices dramatically exceed inflation, property is seen as an even surer bet for returns on investments which in turn exacerbates the severity of the bubble and makes its eventual bursting all the more damaging. A second factor in the Irish case is also the cultural importance attached by the people to property ownership-seen as being a by-product of the Great Famine and independence struggle against the United Kingdom-which has been regarded by commentators such as David McWilliams and George Lee as a contributing factor in the expansion of the Irish property market during the Celtic Tiger.[125][126]

As in the previous chapter, the next variable to examine is that of house price to income ratio. Having already previously been explained and discussed, I regard further expansion as being unbeneficial and so will merely present the Irish case. Similar to that of Japan, the price to income ratio of Ireland clearly indicates a severe property bubble, with peak and trough values similar to their Japanese equivalents. The growth in house prices versus earnings during the 1990s, the period prior to the intensification of the Celtic Tiger, in Ireland can be seen below in Figure 5.2, highlighting how a disparity began to be seen around the middle of the decade-the point when the Celtic Tiger is generally regarded as beginning. Furthermore the house price to income ratio as a whole for the period 1995 to 2010 can be seen in Figure 5.3 below.

[125] RTÈ, 'Reeling in the Years:2006',
[126] McWilliams, 'The Pope's Children, Watch Online',

Figure5.2[127]

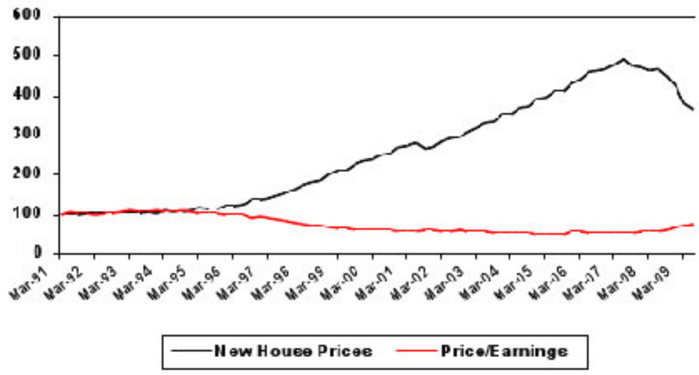
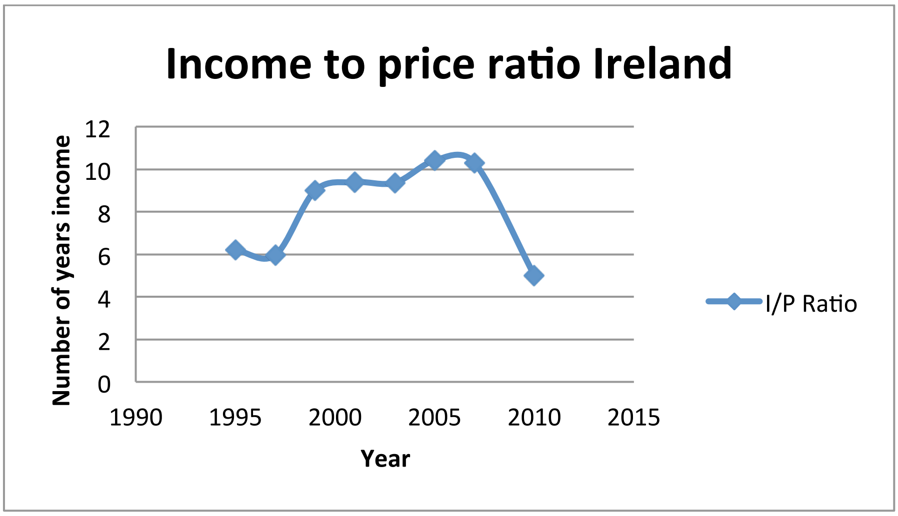


Figure 5.3[128][129]



As mentioned above, the resemblance with the Japanese example is striking with values at peak and trough of bubble being similar in both cases. The ratio in the Japanese case at peak in 1991 of 11.52 is markedly similar to the ratio for Ireland of 10.41 in 2005, while again ratio values at trough are again similar with the resemblance between Japan's ratio of 4.96 in 2005 and the Irish ratio of 5 in 2010 easy to see. As in the examination of the first variable in this chapter, the similarity between the two cases is easy to observe, suggesting the severity of both bubbles was broadly similar.

[127] The Guardian, 'Ireland vs. the world: time for geo-political hardball',
[128] Central Statistics Office, 'Industrial Wages',
[129] Lyons, 'Taking stock of Ireland's property market'

As was the case in the previous chapter, attention shall now be turned towards the role played by financial institutions in Ireland. Similarly to Japan, a major fuel in the growth of the Celtic Tiger was the role played by the banking sector as purveyors of accessible credit, itself exacerbated by the low tax policy and financial deregulation which had begun to take place a decade before the expansion of a bubble-again strong similarities with the Japanese example.[130] The accessibility of credit began to expand dramatically alongside growth in the property market from 2003 onwards, as the housing sector began to become the major factor fuelling growth in the Irish economy.[131] Similarly to the Japanese financial sector at the beginning of the 1990s, at the zenith of the Celtic Tiger Irish financial institutions were among the strongest in Europe, with the size of the banking sector far larger than the actual Irish economy.[132] As will be further expanded upon later in this chapter, the overextension of the Irish banking sector began to be exposed as the Irish property bubble unravelled during the summer of 2008, with matters coming to a head as the Irish state issued a blanket guarantee for six major banks in late September of that year in an effort to stabilise the wider economy and quell consumer fears. As in Japan the accessibility of easy credit assisted in fuelling the expansion of the Celtic Tigers property bubble, while loans made as a result of such easy credit weighed down banks and demanded action on the part of the state so as to prevent their failure. Indeed the only significant difference between the two cases is the speed with which the Irish banking sector unravelled, the state guarantee taking place months after cracks began to be exposed, whereas in the Japanese example it was some half a decade later following the Asian Financial Crisis that the banking sector began to suffer as losses caught up with banks that had engaged in 'zombie loans'.

5.3 Role of State in Economy

After having analysed the variables of the Irish Celtic Tiger, and briefly compared them to those of the Japanese case, I will now direct attention towards the role of the Irish state within the economy, both historically and more recently. Historically since independence the role of the state in the Irish economy had been *laisezz faire,* in part determined by financial necessity. Following the destruction wrought by the War of Independence and Civil War, the overriding ambition of the new government was to rebuild national infrastructure and restore stability to

[130] Powell, 'Economic Freedom and Growth: the case of the Celtic Tiger', pp.3,
[131] McWilliams, 'The Pope's Children, Watch Online',
[132] Whelan, 'Ireland's Sovereign Debt Crisis', pp.8,

the nation's balance sheet, taxes were raised from their previous levels during the United Kingdom and public spending was low with Minister for Finance Ernest Blythe articulating the government's position when he stated "the state is not in the business of providing work for people".[133] However following the accession to power of Fianna Faíl in 1932, the economic stance of the state changed to protectionism a stance which Ireland would largely follow for the next six decades, policies which arguably led to Ireland's poor economic position at the beginning of the 1980s.[134]

The governments of the 1980s had few options but to attempt to alleviate the nation's budget problems, therefore there was a raising of taxes and cutting of public services all of which managed to reduce the primary deficit in half by 1983.[135] However due to high interest rates and slow growth, the debt burden of the country continued to rise-standing at 116 per cent of GDP by 1986.[136] Additionally such policies were naturally unpopular with the electorate, leading to a series of unstable governments culminating in three different governments in sixteen months from June 1981 to November 1982.[137]

A shift in policy was taken in 1987 with a bi-partisan agreement known as the Tallaght Strategy between the governing Fianna Faíl party and its opposition Fine Gael. As taxes were judged to have been raised to their maximum level and Ireland had few inflationary options due to its membership of the EMS, public spending was drastically cut even further. Due to the tacit support from the opposition and public assurances that such policies were taken for financial rather than ideological reasons, public outcry was relatively limited which allowed the state breathing room to continue with such liberalisation policies. Within three years the public deficit had been eliminated and the debt to GDP ratio was under 100 per cent. With the size of the state's role in the economy reduced, the macro-economic environment stabilised and economic growth began, registering 4 per cent in 1989.[138] An additional successful government policy was the introduction of social partnership agreements between the state and trade unions. Beginning in 1987 with 'Programme for National Recovery', these

[133] Keogh, 'Twentieth Century Ireland', pp.4
[134] Ibid, pp.331
[135] Powell, 'Economic Freedom and Growth: the case of the Celtic Tiger', pp.6,
[136] Keogh, 'Twentieth Century Ireland', pp.372
[137] Ibid, pp. 369
[138] Ibid, pp.384

agreements would help to increase the attractiveness of the Irish labour force by maintaining low wages and would continue for the following two decades. Additionally the signing of the Maastrict Treaty in 1992 also committed Ireland to follow sound fiscal policies, reassuring outside investment which again assisted in an increase in FDI.[139]

As stated before Ireland's growth began to accelerate during the 1990s, catching international attention and leading to the coining of the term 'Celtic Tiger'. Much of such growth has been attributed to government policies during this time period, the high tax policies of the previous decade reversed as personal tax was reduced to 22 and 46 per cent standard and top rate respectively by the end of the decade. Corporation tax was also lowered from 40 to 10 per cent in the same period in order to attract further FDI, with further duty-free zones such as the IFSC in Dublin or Shannon in the west of the country.[140] After being labelled "the sick man of Europe" in the 1980s, Ireland had now closed and then surpassed the living standard differential with the rest of Western Europe, with a significant portion of such growth attributable to the policies undertaken by the state. Ireland's liberalisation policies can be seen by the fact that a country which formerly was dominated by protectionist Keynesian policies was now ranked in the top ten 'freest economies' at the end of the decade by the Fraser Institute. [141]

As has been outlined before, the first Celtic Tiger is usually regarded as ending with the downturn of the global economy following the September 11th attacks of 2001, often attributed to a drop in FDI levels-especially from US companies- a significant factor in this relative drop-off was a loss in labour competitiveness which had been a major factor in the attractiveness of Ireland during the previous decade.[142] However by late 2003 FDI returned to former levels and Irish economic growth began to accelerate once again with growth levels in 2004 being the highest in the EU at 4.5 per cent. Media sources were quick to take notice of this resurgence, dubbing it the 'Celtic Tiger Mark Two'.

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[139] Powell, 'Economic Freedom and Growth: the case of the Celtic Tiger', pp.8,
[140] Ibid, pp.9
[141] Fraser Institute, 'Economic Freedom of the World: 2005 Annual Report',
[142] Powell, 'Economic Freedom and Growth: the case of the Celtic Tiger', pp.10

However this continuation of the Irish boom was treated with somewhat scepticism, with some domestic critics such as David McWilliams asserting that such growth was due to over-promotion by the state of the construction sector, which was beginning to create a property bubble.[143] Concerns had been raised about the sustainability of the Irish property market for a number of years, however similar to the Japanese case such growth was almost inevitable as the property market was viewed as the most lucrative areas for banks to invest into. The role of the financial sector in the Celtic Tiger was also often questioned due to its apparent lack of enforced regulations, with the New York Times describing Ireland as the "Wild West of European finance" in 2005, a perception helping to prompt the creation of the Irish Financial Services Regulatory Authority.[144] However despite its mandate for stricter oversight, the agency never imposed major sanctions on any Irish institution, with accusations that it was more focused on processes rather than outcomes and too much trust afforded to major banks and financial service providers.[145]

By the summer of 2007 a downturn in the Irish property market was apparent as sales fell significantly from the previous twelve months; however speculation of a sharp fall in prices were dismissed with numerous commentators declaring that Ireland would merely suffer a 'soft landing'.[146] Despite their significant exposure to the performance of the property market, it is argued that major Irish banks such as AIB and Bank of Ireland would have been able avoid significant losses were the global economy to remain benevolent. However as is well known and requires little further expansion here, by 2007 fears over a burgeoning sub-prime mortgage crisis in the United States had transformed into a growing credit crunch, the depth of which was both revealed and accelerated by the collapse of Lehmann Brother's in the autumn of 2008.

By late summer of 2008 after increasing fears over a downturn in the Irish economy for much of the year, the banking sector in Ireland was regarded as being in crisis and danger of a literal collapse. Following the filing for bankruptcy by Lehmann Brother's on September 15th, these fears were exacerbated with the Irish financial sector regarded as being in danger of immediate collapse. Thus in response to these fears on September 30th the Irish government

[143] McWilliams, 'A warning from deserted ghost estates'
[144] IFSC, 'Irish Financial Services Regulatory Authority'
[145] Irish Times, 'Time to finally tackle our blatant failings'
[146] Irish Independent, 'Central Bank predicts soft landing for housing'

issued a guarantee that the state would stand behind the assets and liabilities of the six major banks. Cumulatively valued at €400 billion, over twice the GDP size of the Irish economy, the guarantee immediately garnered market relief however also drew criticism due to the apparent speed taken to make the decision.[147] Such criticisms were put more in perspective with economist David McWilliams stating that Finance Minister Brian Lenihan had visited him the night before seeking advice with apparent little knowledge or confidence of what action the state ought to take in the burgeoning Irish credit crisis.[148] While generally regarded as being necessary in order to calm markets, the Irish bank guarantee has received much criticism for its lack of prior research as the liabilities of many banks proved to be much larger than previously estimated, in particular those of Anglo-Irish Bank which needed to be effectively nationalised in January 2009. While the approach of the Japanese state towards its embattled banking sector during the 1990s was criticised for being somewhat too ponderous, the Irish bank guarantee has often been accused of being too hasty, with too little proper investigation of deliberation.

As outlined earlier in this chapter, such guaranteeing of the Irish banking sector failed to curb economic stagnation, with the signing of a financial assistance package with the so-called 'troika' of the International Monetary Fund, European Central Bank and European Commission in November 2010 signalling a definitive end to the Celtic Tiger period. [149]

5.4 Role of Fianna Faíl in Bubble

With similarities to the role of the LDP in the Japanese economic bubble, I believe the role of Fianna Faíl is also an important factor in the creating and bursting of the Irish property bubble. Similar to the LDP in its conservative and occasionally populist ideology, Fianna Faíl has traditionally regarded itself as the 'party of power' in the country. As stated above a major factor of the Celtic Tiger was the attraction of FDI by the political stability afforded to the country by the secure position of Fianna Faíl in government. The association of the party with the strong economic growth of the country has been recognised, with a number of commentators arguing that subsequent government policies to encourage the continuing

[147] RTÈ, 'Banking guarantee bolsters Irish market'
[148] McWilliams, 'Follow the Money, pp.12
[149] RTÈ, 'Banking guarantee bolsters Irish market'

growth of the property sector were designed to maintain electorate support. Measures such as SSIAs, a savings scheme launched in 2002 by the government- conveniently designed to reach maturity months before the 2007 General Election-with respondents specifically encouraged to spend dividends on property.[150] A common criticism of the party during the Celtic Tiger was that it assumed its position in government to be natural, and saw maintaining the heady growth rates of the 'First Celtic Tiger' as the being the most expedient way to hold onto such power. Its attitude of the party to the property bubble in the country can be illustrated by the assertion of Taoiseach Bertie Ahern in 2007 that he was unable to understand how those who questioned the sustainability of property growth "didn't just commit suicide".[151] The relative lack of criticism of Ahern also illustrates the degree with to which the performance of the economy, at which stage was still positive, was associated with the governing party.

Throughout the course of this chapter I have attempted to recount the major events concerning the Irish Celtic Tiger property bubble, both its formation and subsequent bursting. Additionally through this recounting I have also referenced back to the previous chapter concerning Japan. Through this I believe that I have provided a satisfactory comparison between the respective bubbles of Japan and Ireland, and can now proceed to the final conclusive chapter.

[150] Department of Finance, 'Special Savings Incentive Accounts – 2004 analysis complied by Revenue Commissioners'
[151] RTÈ, 'Ahern apologises for suicide remark',

Chapter Six: Conclusion

6.1 Concluding Remarks

This chapter concludes this Master's study and draws the threads running through the thesis together. The purpose of this study was to establish the extent to which similarities could be made between the economic property bubble of the Irish Celtic Tiger and the Japanese economic property bubble of fifteen years previously. Furthermore, alongside these comparisons, the study questions whether experiences from the Japanese case might have provided lessons to the Irish state. Through the course of this thesis I have established sufficient similarities between the two cases to facilitate valid comparisons to be made. Comparison was made between the two bubbles through a variety of variables focusing both on property bubbles and political economy in general, with particular attention being paid to the role of both states in their respective bubbles.

To recap for the reader: the overarching research question that drove the research of this study was as follows:

Might the Japanese economic bubble of 1985 to 1993 have provided lessons to the Irish state which would have mitigated the ramifications following the collapse of the Celtic Tiger of 1995 to 2008?

After having analysed the two cases I contend that the answer to this question is Yes, the Irish state could, and should have analysed the effects of the Japanese economic property bubble of 1985 to 1993 and applied them to its own case. Similar state actions, or indeed non-action in both countries exacerbated the affects the respective property bubbles had in both Japan and Ireland. This in turn led to 'over-cooking' of the two economies and subsequent economic stagnation in both countries. Policies which contributed to this 'over-cooking' include: excessive financial deregulation; allowing the capital region to expand at a rate far greater than the rest of the country-whilst paying 'lip service' to decentralisation; allowance of the property sector to hold disproportionate importance to the economy as a whole and; the state turning a blind eye to malpractices within the banking sector. A point of note is that governing parties in both Japan and Ireland appeared to be almost assuming their entitlement to office and thus made irresponsible decisions so as to appease electoral support.

The nigh-on two decade long economic stagnation experienced by Japan following the bursting of its property bubble in the early 1990s illustrates how difficult Ireland will surely find the path to recovery following the end of the Celtic Tiger. While significant efforts have been made to reform the Irish economy in recent years, especially the financial sector, such as the Financial Stability and Reform Bill of 2013, it is often the case that such reforms are both easier and more effective to implement prior to a financial crisis, rather than following one. Accordingly this study makes the following recommendations, made with the benefit of an analysis of the Japanese case:

Firstly that the Irish state should have avoided excessive deregulation of the financial sector, and in particular monitor the lending behaviour of banks within it.

Secondly, when the Irish state was required to inject public funds to support the banking sector, it should have endeavoured to conduct thorough investigation and research before doing so.

Thirdly that the Irish state should have avoided the property sector becoming a major driver of economic growth.

The final recommendation made is that rather than seeking to continue economic growth based on past economic policies (some of which have now been discredited) a state should consider that such growth may have been as a resulting of 'catching up' and thus is not sustainable going forward. Lower, more sustainable growth rates could prove more beneficial to the fiscal health of a nation in the long term.

No thesis is without its limitations and so before concluding remarks, possible limitations of this study are addressed at this point. As a lone researcher I was inevitably restricted in terms of the expected length of the final thesis, and the resources I was able to draw from. The ease with which I obtained data from Ireland contrasted sharply with the difficulties I encountered souring information about Japan. This was not only restricted to a language barrier (although this did inhibit access to some data). As an Irish person I was, of course, extremely familiar with the negative effects of the economic property bubble in that country. I was less familiar with Japan. As such I consulted four respected economic academic commentators asking for recommendations to sources of Japanese economic data. Somewhat surprisingly, these commentators were unable to point me in the direction of additional data, beyond what I had already managed to source. Notwithstanding these difficulties, the comparisons observed as a result of this study point to the validity of a future, more longitudinal study being conducted between Ireland and Japan. Both countries provide valuable lessons to other economies whose property bubbles are stealthily growing.

While the recommendations made by this study lie on the path of common sense, there are nevertheless I believe applicable to current economic climates, in Ireland but also beyond the boundaries of just the Republic of Ireland. If these recommendations had been enacted by the Irish authorities, I contend that they would have mitigated the growth of the Irish property bubble and therefore have averted the turmoil caused by its bursting in 2008. Ireland is still trying to recover from the widespread ripple effects caused by the violent bursting of its property bubble. Other countries, that perhaps in the past regarded Ireland's sprinting Celtic Tiger of the early years of this century with something approaching awe have now the opportunity to check themselves and re-evaluate the experiences of both Japan and Ireland with a view to avoid a similar fate, post property bubble bursting.

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