

What can we do to make our economy less vulnerable to destabilising booms and busts in housing? I know this is a case of shutting the stable door after the horse has bolted, but surely it's important that we learn the right lessons from the current debacle so that it doesn't happen again.

Having a menu of policy options available to tackle housing bubbles when they are inflating seems especially important for a country like Ireland which does not control its own interest rates. In the euro area, the responsibility for counteracting bubbles in national housing markets lies with governments, not with the European Central Bank.

The way I see it, policymakers should do three things when the housing market eventually stabilises.

First, the government should introduce a property tax and capital gains tax on homes. These taxes could be raised, and mortgage interest relief could be reduced, whenever ECB interest rates become inappropriately low for our economy. These measures could be reversed when interest rates move back up. Had such policies been in force over the past decade, the sharp drop in interest rates since our entry into EMU in 1999 might not have been so disruptive.

Second, the Financial Regulator should redesign regulatory policies to prevent banks loosening lending standards during booms. Some current banking practices make credit easier to get when house prices are rising rapidly. 100 per cent (or even higher) mortgage products are a case in point. Easy credit fuels bubbles because it feeds back into house prices, and so on.

Third, policymakers should monitor the housing market more carefully. That means, among other things, listening more attentively to independent advice about valuations in the housing market. It also means not being afraid to act aggressively when the market looks like it's getting out of hand.