

The government's response to the bursting of the house price bubble has so far been quite sensible. Most importantly, the government has wisely not tried to prevent house prices from declining to more sustainable levels. Policymakers rightly seem to realise that the only way for the housing market to repair is for prices to drop.

Nor has the government taken actions that would add to the supply of housing in the near term, such as ramping up construction of social housing as they are doing in Spain. Such measures provide support to builders, but they worsen the inventory overhang problem and prolong the adjustment process.

The government has rightly not fallen for the tired old line that radical cuts in stamp duty would boost the market, though Brian Cowen did make some adjustments last year. Activity in the housing market will recover when the price bubble has fully deflated. Messing with stamp duty is more likely to hinder than to speed up this process.

Plans by the government to support non-housing parts of the economy to cushion the effects of the building slump also make sense. The planned infrastructural spending under the NDP will be especially useful because it will boost our competitiveness. Moreover, better public transport infrastructure may help to mitigate future house price bubbles by reducing the premium on centrally located housing.

Another good idea is the new Home Energy Saving Scheme announced in April which subsidises energy efficient investments in houses. As well as the environmental benefits, this scheme is well timed because it provides employment to laid-off construction workers.

Lastly, the government is rightly ignoring the advice of many of the "economic experts" who regularly feature in the media. Much of their advice is at odds with basic economic reasoning and evidence. It's nothing but dangerous nonsense.