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Asset Price Keynesianism, Regional Imbalances and the Irish and Spanish Housing Booms and Busts

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Abstract: Ireland and Spain were amongst the European countries which experienced the most severe economic and fiscal problems following the global financial crisis. The proximate causes of these economic crashes have been explored in-depth by researchers and governments, who have highlighted strong parallels between the policy, regulatory and economic factors which underpinned them. In both countries residential property price inflation increased dramatically from the late 1990s driven by increased availability of cheap mortgages but unusually was accompanied by marked growth in new house building. Thus, following the international credit crunch in 2008, a simultaneous contraction in both mortgage credit and house building occurred in Ireland and Spain, which precipitated a marked knock-on decline in the employment, tax revenue and consumer spending which the housing boom had underpinned. This paper argues that the Irish and Spanish housing booms and busts are similar not just in terms of scale and proximate causes but also in terms of fundamental causes. In both countries the housing boom/bust cycle was underpinned by a suite of macroeconomic policies which aimed to use asset price growth to underpin rising demand and economic growth, or in other words achieve what Robert Brenner (2006) terms 'asset-price Keynesianism'. This approach was particularly attractive to the Irish and Spanish governments because it enabled them to resolve historical legacies of industrial underdevelopment and regional imbalances by generating construction jobs in underdeveloped areas. As a result of the latter, local/regional governments in both countries played a key role in facilitating the implementation of this policy.

Introduction:

Ireland and Spain were amongst the European countries which experienced the most severe economic and fiscal problems following the global financial crisis. Ireland's GDP contracted by 15.6 per cent, between 2008 and 2010, Spanish GDP contracted by 5.3 per cent concurrently and tax revenues collapsed in both countries (Eurostat, various years). The entire Irish banking industry foundered and was almost fully nationalised in 2009. By the end of the following year the State found itself unable to borrow on international markets and was forced to negotiate an emergency loan from the International Monetary Fund and the EU and an associated four-year austerity programme, in order to fund public spending and bank recapitalisation (Government of Ireland, 2010). The short-term impact of crisis was less severe in Spain which did not have to enter a full IMF 'financial stability programme', but was still forced to negotiate a smaller, more targeted package of support from the EU/IMF in order to recapitalise some of its failing banks. The long term impact has arguably been worse and Spain's unemployment rate remains well above Ireland's (López and Rodríguez, 2011).

The proximate causes of these developments have been explored in-depth by researchers, governments and the international agencies responsible for devising and monitoring the 'bail outs' (e.g., Honohan, 2010; Regling and Watson, 2010; Norris and Coates, 2014, López and Rodríguez, 2011 among many others) and these sources have highlighted strong parallels between the various policy, regulatory and economic factors which underpinned the Irish and Spanish housing booms and busts (Conefrey and Fitz Gerald, 2010; International Monetary Fund, 2015). In common with many developed countries, residential property price inflation in Ireland and Spain increased dramatically from the late 1990s but, more unusually, this was accompanied by a very large increase in new house building. Thus the Irish and Spanish economies were particularly severely affected when credit availability contracted following the 2008 international credit crunch 2008 because this development precipitated a simultaneous decline in construction and had a marked negative knock-on impact on the employment, tax revenue and consumer spending which the housing boom had underpinned (Norris and Coates, 2014; López and Rodríguez, 2011).

This article argues that the Irish and Spanish housing booms and busts are similar not just in terms of scale, impact and proximate causes but also in terms of fundamental causes. In both countries the housing boom/bust cycle was underpinned by a suite of macroeconomic policies which aimed to use asset price growth (particularly of property which is the most widely held asset) to underpin rising consumer demand and economic growth, or in other words achieve what Robert Brenner (2006) terms 'asset-price Keynesianism' (López and Rodríguez, 2011 also apply this concept to Spain). Brenner (2006) argues that this strategy was employed by the United States as a solution to the widespread decline in the profitability of industry from the late 1960s (separately, Watson (2010), Crouch (2011) and Prasad (2012) propose similar concepts). Drawing on Brenner's theoretical work, and Lopéz and Rodríguez' analysis of Spain, the argument presented here is that the particularly strong attractions and impact of asset price Keynesianism in Ireland and Spain reflect socio-economic and political factors which are shared by these countries, but not by their more industrially advanced western European neighbours. These factors are: firstly the failure of both Ireland and Spain to achieve significant industrial development during the post-war 'golden age' of economic growth and secondly the spatially imbalanced nature of the industrial growth which was achieved and the regional political tensions it inspired. Asset-price Keynesianism enabled the Irish and Spanish Governments to compensate for industrial underdevelopment and resolve regional imbalances by generating construction jobs in underdeveloped areas. As a result of the latter, local/regional governments in both countries played a key role in facilitating the implementation of this policy.

The discussion of these issues presented here is organised into five further sections. The next section summarises and critiques Brenner's (2006) theory of asset price Keynesianism and explores the most notable variations on his ideas which have been offered by other scholars. This is followed by an outline of the anatomy and impact of the Irish and Spanish house price and building booms between the mid-1990s and mid-2000s and of the bust which commenced in both countries in 2006-07 and accelerated following the credit crunch in 2008. The next two sections draw together these analyses by examining the macro-economic reforms introduced in both countries which inspired by asset price Keynesianism and the contribution of regional imbalances and sub national government to driving and operationalising this policy. The conclusions identify the key findings and implications of this analysis.

Asset price Keynesianism: Macro-economic impact of housing on aggregate demand:

Brenner's (2006) concept of 'Asset price Keynesianism' refers to the centrality of asset price bubbles to the model of accumulation which underpinned economic growth in many developed countries at least from the mid-1990s. He argues that in those countries which experienced property booms during this period (his analysis focusses on the US but could also be applied to the UK, the Netherlands and a number of Baltic States as well as Ireland and Spain), asset price increases particularly in real estate were central to the release of ever-increasing amounts of debt into the economy and, consequently, to increasing consumer demand (López and Rodríguez, 2010; Crouch, 2009; Aalbers and Christophers, forthcoming; Downey, 2014). He points out that the combination of housing market bubbles and widespread owner occupancy, meant that many families held increasingly valuable assets - between 2000 and 2004 household real estate wealth in the United States increased by 50 per cent. In his view this was the primary reason why the US boomed despite the fact that family incomes and private sector employment remained static between 2000 and 2007:

> On the basis of this huge on-paper appreciation of the value of their residencies, households were able to withdraw dramatically increased funds from their home equity – by selling their houses at prices surpassing their mortgage debt, buying new ones, and still having cash left over; by re-financing and increasing the size of their existing mortgages, extracting cash in the process; and by taking out new home equity loans in the form either of second mortgages or lines of credit. If one adds these three sources together, households were able to raise… the astounding sums of 492 billion, 693 billion, and 734 billion dollars respectively, in… 2002, 2003, and 2004 (Brenner, 2006: 319).

Separate to Brenner (2006) a number of other authors offer similar analyses of the increasingly important overall economic role of real estate since the 1970s. For instance, Crouch (2009, 2011) proposes a similar model called 'privatised Keynesianism' which was adopted with more enthusiasm by the English speaking countries which had embraced mainstream Keynesian economics until the 1970s/1980s and were more dependent on consumer spending to support demand. Privatised Keynesianism was less necessary and therefore less popular in countries such as Germany which relied more on the manufacturing industry and exports to underpin economic growth. Watson's (2010) analysis of the UK offers a similar but more multi-faceted concept called 'house price Keynesianism'. As well as supporting consumer demand he argues that this system has a social function - it was intended to support an 'asset based welfare state' which, by enabling households to accumulate assets such as dwellings which they could liquidate if required, would in part replace the mainstream welfare state. In a variation on this theme Prasad's (2012) longitudinal study of the US welfare system suggests that the asset price Keynesianist model in this country is much older than these other authors imply. She traces the emergence of what she terms 'mortgage Keynesianism' back to the start of government intervention in the US economy in the late 19th Century. At this time farmers were politically powerful and their lobbing for access to credit which would enable them to invest in machinery and land clearance encouraged government to focus its energies on credit market interventions rather than on providing public services. In Western Europe the public services set up at this time grew into comprehensive welfare states. In the United States government regulation of credit availability introduced in the late 19th Century expanded into mortgage subsidies and then into efforts to increase credit availability by establishing government sponsored mortgage securitisation agencies (Fannie Mae and Freddie Mac).

Prasad's (2012) work therefore indicates that Brenner (2006), Watson (2010), Crouch (2009) and many other writers on financialization overstate the novelty and contemporaneousness of government promotion of credit availability and reliance on this source of revenue to drive economic growth. Her longitudinal, multi-faceted and evidence based analysis of the single case of the USA also highlights additional problems in other analyses. One of these relates to the lack of empirical evidence (on for instance the rate, character and distribution of housing debt) which underpins some writing, their failure to consider contrary evidence (for instance the reverse mortgages which many authors consider vital for liquidating housing wealth are not legal in all European countries) and therefore the accuracy of generalisations surrounding the popularity of asset price Keynesianism outside the English speaking world proposed on this basis (European Central Bank, 2009). Another problem relates to the tendency of Brenner (2006) and Crouch (2009) as political economists to focus strongly on the role of credit availability and to neglect other factors such as housing and planning policy which also influence house prices. Furthermore this genre of analysis has been criticised as 'overly deterministic, assuming both intent and efficacy on the part of the capitalist class' (van der Zwan, 2014: 106). Krippner's (2012) economic history of the United States posits an alternative view of the factors which inspired financialization. She suggests that it was the unintended consequence of a series of policy reforms such as the deregulation of foreign capital flows and interest rates which were introduced in response to the economic and fiscal crises of the 1970s. American policy-makers assumed that capital would always be a scarce resource and were unable to imagine a scenario whereby an oversupply of credit would emerge.

The Irish and Spanish Housing Booms and Busts: Anatomy, Drivers and Impact

Ireland and Spain are distinguished from most of their western European neighbours by economic underperformance in the decades following World War II. Both countries failed to industrialise to any significant extent, due in part to strict adherence to protectionism policies. Consequently they retained economically depressed regions and a much larger rural population for longer than the rest of Europe. Although they enjoyed some economic 'catch up' following trade liberalisation in the 1960s, both suffered badly following the oil price shocks of the 1970s and living standards remained well below the western European average in the 1980s (Tortella, 2000; Kennedy *et al,* 1988).

From the 1990s the economies of both countries turned around dramatically and decades of economic stagnation and population decline were replaced by economic and population growth. As detailed in Table 1 the additional demand created by these developments began to feed into house prices from the middle of the decade. Between 1996 and their peak in 2006, Irish house prices increased by 292 per cent in nominal terms, while Spanish house prices tripled between 1995 and 2007 and at the height of the property boom (2002-2006) house prices increased by 30 per cent annually.

Table 1: Anatomy, Drivers and Impact of the Irish and Spanish Housing Booms and Busts.

		1996	1998	2000	2002	2004	2006	2008	2010	2012
Construction employment as a % of all employment	Ireland	7.6	8.6	9.6	10	10.9	12.7	11.3	6.5	5.6
	Spain	9	9.8	11.3	12	12.3	13.1	11.9	8.8	6.4
GDP (€m)	Ireland	57649	77670	102845	130717	150025	177574	180250	158097	163939
	Spain	480535	525454	609734	696208	841,294	985,547	1,087,788	1,045,620	1,029,002
GDP derived from construction (%)	Ireland	5.3	5.7	6.4	6.3	7.6	9.4	6.1	1.6	1.6
	Spain	8.3	8.4	9.2	9.8	10	10.4	10.1	8.1	5.8
House Building (N)	Ireland	33725	42349	49812	57695	76954	93419	51724	14602	8488
	Spain	353337	275569	275596	426738	496785	585583	615072	240920	114991
Housing stock (1,000s)	Ireland	1115	1173	1230	1506	1652	1841	1971	2012	2011
	Spain	17945	18475	19125	21460	22380	23458	24591	25131	25276
House Prices (1,000s) % change (year on year)	Ireland	13.3	28.8	15.3	n/a	n/a	14.6	-7	-12.4	-11.5
	Spain	1.9	4.7	14.3	17.3	17.2	9.1	-3.2	-3.5	-10
Outstanding residential loans (€ million)	Ireland	13879	20855	32546	47,212	77,615	123,988	148,803	103,043	97,462
	Spain	86173	128,328	188,165	261,921	384,631	571,803	674,434	680,208	641,510
Outstanding residential loans to GDP ratio	Ireland	24.1	26.9	31.6	36.1	51.7	69.8	82.6	65.2	59.5
	Spain	17.9	24.4	30.9	35.9	45.7	58	62	65.1	62.3
Outstanding residential loans per capita (€)*	Ireland	3840	5650	8620	16360	25792	39076	44098	30081	28474
	Spain	2190	3240	4710	7778	10983	15761	17922	17796	16680
Owner occupation rate (%)	Ireland	n/a	n/a	n/a	n/a	81.8	78	77.3	73.3	69.6
	Spain	n/a	n/a	n/a	88	n/a	n/a	80.2	79.8	78.9
Population aged 18 and over (millions)	Ireland	n/a	n/a	n/a	2885746	3009305	3173018	3374379	3425549	3422850
	Spain	n/a	n/a	n/a	33673699	35021216	36280525	37631695	38223380	38460731
Real gross fixed investment in housing (% change year on year)	Ireland	n/a	n/a	n/a	3.7	10.8	3.8	-16	-32.9	-19.5
	Spain	n/a	n/a	n/a	6.1	5.2	6.6	-9.1	-11.4	-8.7

Source: European Mortgage Federation (Various Years) and Eurostat (Various Years).
Note: * data refer to 18+ population only.

As well as economic and population growth the housing boom in both countries was underpinned by very strong credit growth, albeit from a low base compared to the rest of western Europe (European Mortgage Federation, various years). Credit expanded particularly fast between 2000 and 2006 when outstanding residential loans in Ireland rose by 281 per cent, while this type of credit expanded by 204 per cent in Spain during the same period (see Table 1). Although mortgage lending and private sector credit more broadly increased across the EU and most developed countries concurrently, this trend was especially pronounced in Ireland and Spain. Between 2000 and 2007 outstanding residential loans expanded by 80.3 per cent across all 27 EU members (European Mortgage Federation various years) (see Table 1).

The core argument proposed here is that the credit expansion was significant not just as a driver of house price inflation, due in part to rising lending the housing market became the main engine of overall economic growth in Ireland and Spain during the first half of the 2000s. Therefore credit was a key mechanism for achieving asset price Keynesianism. This effect is particularly evident in Spain where López and Rodríguez (2010) point out that the value of assets held by households increased by 350 per cent between 1995 and 2007 - the vast majority of which can be attributed to house price increases , 80 per cent owner occupancy and second home ownership by 35 per cent of families. In the same period, Spanish domestic consumption increased by 91 per cent - an increase which cannot be explained with reference to wages which increased by just 0.7 per cent in the private sector during the property boom (see Palomera, 2013). Although wage growth during Ireland's boom was significantly stronger, property prices also served as a significant boost to consumer demand in this country. Between 2005 and 2007, the peak boom years, more than one-third of all loans were housing equity withdrawals, amounting to €5.5 billion per year. According to Downey (2014: 125) this meant that "....a majority [of homeowners] relied on equity release as income and adjusted consumption and expenditure accordingly." Lane (2011: 9) highlights similar evidence in relation to investor demand for dwellings and commercial property, arguing that "[t]he collateral cycle played an important role with rising property prices improving the net worth of domestic investors, which in turn enabled extra leverage and a further impetus to the property market." The increasing value of assets held by households thus translated into a 'wealth effect' which stimulated consumer spending and made for an economy heavily dependent on domestic demand linked to housing and property development (Carballo-Cruz, 2011; Lopez and Rodriguez, 2010; 2011).

An unusual feature of the Irish and Spanish housing booms which distinguish these cases from most other contemporary housing booms (the United States is a notable exception) is that galloping house price inflation was accompanied by a radical increase in new house building. Housing output in Ireland grew from 49,812 to 93,419 dwellings between2000 and 2006, while in Spain it expanded from 275,596 to 585,583 dwellings concurrently (see Table 1). To place these figures in context, in 2006 the UK built 209,000 units for a population of 60 million, whereas the Irish and Spanish populations were 4.6 and 47 million respectively in the same year (European Mortgage Federation, various years). The Irish and Spanish housing booms also appear to contravene the laws of economics, because in these cases increased output failed to significantly moderate house price inflation. In addition to the expansion in mortgage credit, this occurred because a significant proportion of new dwellings in both countries were left vacant (vacancy rates increased by a third between 1996 and 2006 in Ireland and in Spain remained static at the relatively high level of 15 per cent between 1991 and 2001 but was much higher in some Spanish regions) and/or were located outside the key population growth centres (Fitz Gerald, 2005; Hoekstra and Vakili-Zad, 2011).

As well as being atypical, high housing output in Ireland and Spain is significant for a number of reasons. Firstly, although the role of construction is not emphasised in the literature on asset price Keynesianism, in the Irish and Spanish cases house building was a key mechanism for supporting economic growth and thereby translating this economic model into practice. This occurred because construction came to account for an increasingly large proportion of national wealth (just over 10 per cent of GNP in both countries in 2006) and a very important source of employment (in 2006 this sector directly generated 12.4per cent of total employment in Ireland and 13.1 per cent in Spain compared to only 8 per cent in the EU15 as a whole (see Table 1) (Eurostat various years).The house price and building boom also swelled the public finances particularly in Ireland. Here receipts from residential property-market related taxes rose from €2.75 billion in 2002, to a peak of €8.1 billion in 2006. This facilitated public spending growth and cuts in income taxes which further increased exchequer reliance on property market taxes (Addison-Smyth and McQuinn 2009).

The Irish and Spanish house building booms were also significant because, as became clear when the housing markets of both countries crashed in 2007-08, combined with the credit boom they created serious economic risks at a number of levels. The scale of credit growth created serious risks in the Spanish and Irish banking industries due to the high level of lending for property development and mortgages and consequent high exposure of the banks to the real estate sector of the economy. At household level the dramatic rise in mortgage debt, particularly during the early 2000s, also generated significant risks. Furthermore, at the macro-economic level, the proportion of GNP, government revenue and employment generated by construction proved to be unsustainably high.

In 2000 real estate related lending made up 37.4 per cent of the total lending by Irish mortgage lenders but this almost doubled to 72 per cent in 2006. In 2005 an Irish Central Bank report raised concerns about the fact that in five of the thirteen credit institutions surveyed over 80 per cent of the loan book related to real estate (Kearns and Woods 2006). Similarly, in 2007 the total debt of real estate companies in Spain amounted to €1.5 trillion and 70% of the lending of the so-called 'cajas de ahorro' (savings banks) was related to construction (López and Rodríguez, 2010).In order to fund this increased lending, banks in both countries were forced to diversify their revenue beyond the traditional source of retail dependence. Irish banks relied principally on borrowing from other banks on wholesale money markets for this purpose - net borrowing from abroad by Irish banks increased from 10 per cent of GDP in 1999 to over 60 per cent in 2007 (Honohan, 2010). Spanish banks were among the most energetic users of mortgage securitisation and mortgage covered bonds in the EU. Spanish securitisations account for almost half of all securitisations in the euro area. They expanded by 65 per cent per annum during the 2000s and Spain's share of Eurozone mortgage covered bonds more than doubled between 2003 and 2007 (ECB, 2009). A similar 'funding gap' between bank deposits and lending emerged in all Eurozone countries (except Germany) during the early 2000s, but this gap and therefore the risks associated with the prospect that these new sources of funds would dry up, was largest in countries such as Spain and Ireland which experienced the greatest concurrent expansion in mortgage lending (European Central Bank 2009).

At household level the dramatic rise in mortgage debt, particularly during the early 2000s, also generated significant risks because as Table 1 demonstrates the sharp increase in total outstanding mortgage debt in both countries was driven not just by the rising number of loans issued but by also by an increase in the size of loans. Although declining interest rates following Ireland and Spain's accession to membership of the Euro in the late 1990s made these large borrowings more affordable, lenders in both countries found it necessary to employ financial product innovation to further increase affordability. In Ireland the advent of 100 per cent mortgages, longer maturities, and mortgage equity withdrawal products all further inflated house prices and by extension risks for borrowers (Hogan and O'Sullivan, 2007; Doyle, 2009; Norris and Coates, 2014; Downey, 2014). In Spain the average maturity of mortgages increased from 10 to 28 years between 1990 and 2007 and the number of mortgages issued to lower-income groups rose as did mortgages issued to non-European migrants, particularly in the last phase of the boom (Fernandez de Lis and Garia Herrero, 2008; European Central Bank, 2009;Lopez and Rodriguez, 2011). Therefore unlike the United States, in Ireland and Spain reckless lending was driven by a diminution of lending standards among mainstream lenders rather than by the emergence of a dedicated sub-prime sector.

Both countries' housing booms began to slow in 2006, as the potential of the credit and building based growth model became exhausted. This development slightly preceded the collapse of Leman Brothers in 2008 but the associated credit crunch radically accelerated the pace of the Spanish and Irish economic decline. Between 2006 and 2012 new house building in Spain declined by 80.5 per cent and house prices fell by 15.9 per cent and all the real estate sectors found themselves in trouble as an estimated 1 million new dwellings were unsold and a further 3-4 million were long term vacant. Government responded by spending €26.5 billion on public infrastructure projects in 2007and recapitalising a number of failing banks, but as evidenced initially by a series of bank bailouts, this intervention proved insufficient to maintain the construction sector (López and Rodríguez, 2011). When the Spanish government ran out of finance for bank recapitalisation it was forced to turn to the European authorities and the IMF for a further €100 billion loan (Rodríguez, 2012).

Irish house prices declined by 41.6 per cent between 2006 and 2012 and house building declined by 90.9 per cent. Like in Spain these housing market developments had a very significant impact on the wider Irish economy because they drove a radical fall in construction employment (from 12.7 to 5.6 per cent of the workforce between 2006 and 2012) and in the percentage of GDP accounted for by construction (from 9.4 to 1.6 per cent over the same period) (see Table 1). Falling revenue from the property market also had very negative implications for the Irish government and the Irish banks. Tax revenue fell dramatically in 2007 and 2008 and falling revenue from residential property market related taxes accounted for 35.2 per cent of this decline (Norris and Coates 2014). Concurrently banks experienced a slow but steady flight of customer deposits as concerns about their over-exposure to property loans increased, which coupled with the credit crunch impeded Irish banks' access to the wholesale money markets. In response the government commenced recapitalising the banks in late 2008 and this programme was progressively expanded until five of the six major Irish banks during the following year (Norris and Coates, 2014). The failure to resolve the banking crisis, the high costs of the government's efforts in this regard which effectively interlinked banking and sovereign debt, coupled with declining tax revenues and pressures on public expenditure due to rising unemployment all undermined the Irish government's creditworthiness. Its borrowing costs became unaffordable by late 2010 and it was forced to apply for an emergency loan from the EU and IMF, 58.8 per cent of which was devoted to public spending with the remainder spent on bank recapitalisation (Government of Ireland 2010).

National Policy Facilitators of Asset Price Keynesianism

The proceeding section has argued that the Spanish and Irish credit and housebuilding booms acted as key drivers of economic growth during the early 2000s. This section further develops this analysis by examining the extent to which national governments facilitated this asset price Keynesianism through policy reforms. This analysis focusses on policies in the fields of bank regulation, taxation, housing and land use planning policy and, taking account of the critiques of asset price Keynesianism outlined above, examines the extent to which these policy reforms were devised with the explicit intention of facilitating the implementation of this economic model.

Housing Policy

Two elements of national housing policy made a particularly important contribution to facilitating asset price Keynesianism: policies to support private housing provision, particularly home ownership but also private renting in the Irish case and the residualisation of social housing. These policies forced the vast majority of households into the housing market to secure accommodation which, by increasing private ownership of housing assets, in turn enabled the use of asset prices as an economic stimulant (Lopez and Rodriguez, 2010; 2011; McCabe, 2011).

In relation to the latter issue, Ireland devoted significant resources to social house building during the first half of the 20th Century, but this country also has a long tradition of selling social housing to tenants which dates from the 1930s (Norris and Fahey, 2011). As a result, by the 1990s, 220,000 of the 330,000 social rented dwellings built in Ireland during the previous 100 years, had been sold to tenants (McCabe, 2011). Due to this loss of existing stock and lower levels of new social housing output in since the 1980s only the lowest income households have been able to access social housing in Ireland in recent decades. Similarly in Spain Rodríguez and López (2011: 47) report that "from 1993 cut backs in the construction of social housing added to the already dramatic decrease in the construction of social housing which had taken place between 1984 and 1989" and this shortage of supply was augmented by the Boyer Decree (1985) which sanctioned the privatization of social housing stock and largely removed the rent controls which were heretofore widespread in the private rented market (Lopez and Rodriguez, 2010).

The impact of these reforms in terms of pushing households into the private housing market was reinforced by 'pull factors' which increased the attractiveness of this sector. In Spain the Boyer Decree introduced generous universal tax subsidies for home ownership which helped to increase the size of this tenure from 64 per cent in 1971 to 87 per cent in 2007 (Rodríguez and López, 2011). In Ireland universal mortgage interest relief was reduced during the 1980s and 1990s but many supports for low-income home buyers were put in place which enabled this cohort of the population to access the housing market (Norris, Coates and Kane, 2007). However, as evidenced by the fact during the economic boom the number of households living in private rented accommodation grew for the first time since records began, exchequer subsidies for this sector were also important. Historically private renting was not was not subsidised in Ireland but this changed in the late 1970s when housing allowances (called rent supplement) were introduced to pay the rent of benefit dependent private renters and then in 1986 tax incentives to subsidise the construction and refurbishment of private rented accommodation in run down neighbourhoods (popularly known as Section 23 incentives) were introduced. Neither of these measures was formally intended to support investment in private renting (rent supplement was a cheaper, more flexible alternative to social housing and Section 23 was a neighbourhood regeneration scheme) but they had that effect in practice.

Bank Regulation and Finance

Changing policy on the regulation of banks and mortgage lenders also facilitated rising credit availability and therefore rising prices in both Ireland and Spain. In Ireland this development commenced in the early 1980s and was driven by two factors: European Union membership which required the removal of barriers to national and international competition in the banking sector and the severe fiscal crisis which inspired the government to withdraw from its role as the dominant provider of mortgages to low-income households (on the grounds that these were included in the then very large national debt) and encourage commercial banks to fill this gap in provision. Thus during the 1980s Ireland's home mortgage finance system was almost entirely marketised as government mortgages fell from one third to less than one per cent of provision, the commercial banking sector was deregulated (quantitative restrictions on credit growth were abolished; banks' reserve requirement ratios lowered; capital controls dismantled and restrictions on interest rates withdrawn) and legal barriers to the conversion of building societies into banks were removed(Norris, forthcoming). Similar deregulation of banking and mortgage lending happened somewhat later in Spain also driven in part by EU requirements alongside the introduction of legislation in 1992 which legalised the creation of mortgage securitisation funds (Fernandez de Lis and Garcia Herrero, 2008).

These policies had the effect of facilitating the radical credit growth outlined in the opening sections of this paper and by extension asset price Keynesianism, but clarifying the extent to which these reforms were deliberately designed for this purpose is challenging. Unlike common law jurisdictions such as Ireland, in civil law jurisdictions like Spain mortgage securitisation is not possible unless it is specifically enabled by legislation so there is little doubt that the legalisation of this facility in 1992 was introduced with the express purpose of increasing credit availability (European Central Bank, 2009). On the other hand the implications for credit supply of bank deregulation in Ireland and Spain did not become fully evident until years after most of these reforms were introduced – after the process of European economic and monetary union (EMU) had culminated in the adoption of the Euro currency by both countries in 1999. EMU enabled the intensity of credit growth necessary to finance the massive expansion of house construction and purchase in Ireland and Spain in a number of ways (O'Riain, 2012; 2014; Norris and Coates; 2014; Carballo-Cruz, 2011; Lopez and Rodriguez, 2011; Fernandez de Lis and Garcia Herrero, 2008). EMU eliminated exchange rate risks and thereby the risks of the cross-border, inter-bank lending which underpinned Ireland's credit boom and EMU also increased the cross-border liquidity of the securities and bonds which underpinned Spain's credit boom (by 2007 approximately 66 per cent of Spanish securitisation bonds had been sold to foreign investors) (Conefrey and Fitz Gerald, 2010; Observatorio Metropolitano, 2012). EMU also resulted in low and predictable interest rates across the Eurozone which encouraged increased borrowing in countries including Ireland and Spain where mortgage interest rates had historically been high and volatile while at the same time national central banks lost control over interest rates which might have helped to control housing demand (Carballo-Cruz 2011; Fernandez de Lis and Garia Herrero, 2008). Irrespective of whether mortgage market liberalisation was designed with a view to facilitating asset-price Keynesianism or not, once it had been introduced, the Irish and Spanish governments clearly felt that the advantages of its impact outweighed the disadvantages, because during their housing booms neither government used the regulatory instruments which were available to control credit growth, such as imposing minimum deposit requirements or maximum loan to value ratios (Honohan, 2010).

Land Use Planning and Infrastructure Policy

In contrast to bank regulation and finance there is no doubt that the reforms to land use planning and infrastructure policy in Ireland and Spain during the late 1990s and early 2000s were intended to facilitate increased construction in order to underpin economic growth and also curtail property price inflation. This was particularly obvious in Spain where the Land Act 1998 (frequently referred to as the 'build anywhere Act') changed the planning system to effectively zone huge swathes of land as suitable for development (Burriel, 2011; Lopez and Rodriguez, 2010; Coq-Huelva, 2013). This development was rationalised on the basis that increased supply of development land would reduce costs, but in fact land values continued to rise after 1998 (Burriel, 2011). In Ireland the national legislative framework which underpinned its (traditionally very weak and permissive) land use planning system was tightened up by the Planning and Development Act, 2000. However the implementation of this legislation continued to facilitate rather than inhibit development. This tendency is evident from the government's response to a series of economic analyses of the housing market which it commissioned in the late 1990s (Bacon and Associates 1998, 1999, 2000). These reports identified under supply of dwellings as a key driver of price inflation and practically all of their recommendations to boost output by increasing density of development, investing in the necessary infrastructure and employing more planners were implemented by government (see Department of the Environment and Local Government 1998, 1999, 2000). One the other hand, the relatively modest taxation measures the reports recommended to discourage residential landlords from buying dwellings were shelved following campaigns by property industry representatives (Norris and Shiels 2007).

During the Irish and Spanish property booms very high exchequer investment in physical infrastructure facilitated the increased house building and also further reinforced the concentration of economic resources in the construction sector. In Spain the 1991 *Plan Director de Infraestructuras* initiated a long period of significant public infrastructure investment; which reached 1.9 - 2.7 per cent of GDP annually between

1993 and 2002 (Lopez and Rodriguez, 2010). Much of this investment went into motorways and other forms of transport (e.g. high –speed trains) which enabled further urbanization and rising land values. This is particularly evident in the formerly rural areas around Madrid, which had the highest levels of housing output of anywhere in Spain (Burriel, 2011; De Santiago, 2011). In Ireland, EU Cohesion Funds contributed over €1 billion to infrastructure projects between 1993 and 2002, much of which financed motorways and road networks generally (Bannon, 2004). Ironically, perhaps, while EU infrastructure funding in Ireland and Spain was designed to overcome regional imbalances within Europe, to an extent it reinforced both countries' dependency on real estate as land prices absorbed the added value brought by motorways, public transport and high speed train networks.

Local Policy Facilitators of Asset Price Keynesianism

Ostensibly at least the organisational context for operationalising asset price Keynesianism at sub-national level differs significantly between Ireland and Spain. The former country has one of the most centralised systems of government in the EU – it lacks any meaningful system of regional government and local government (city and county councils) has very limited fund raising powers and responsibilities (Callanan and Keogan, 2003). In contrast, Spanish regional government (the autonomous communities) is very powerful in terms of responsibilities and tax raising powers and local level municipalities (city councils) are less powerful but are also important providers of public services. Notwithstanding these organisational differences however, due to a number of shared political and financial factors sub national government in both countries played a key role in driving the house building and to a lesser extent the credit booms and thereby to enabling the implementation asset price Keynesianism.

Sub-National Government Finance

In both the Spanish and Irish local government systems a dynamic of fiscal dependency on construction and real estate emerged during the boom. Spanish city councils are dependent on taxes and charges linked to real estate, including property taxes and forms of capital gains tax, as well as various development levies and similar fees. Revenue directly related to real estate markets represented almost a quarter of councils' income between 2003 and 2004 and importantly was the fastest growing proportion of income during the boom (Lopez and Rodriguez, 2010: 335). Autonomous communities also have a strong fiscal relationship with real estate which is where some of their most powerful fiscal instruments lie (Coq Huelva, 2013). Therefore sub-national government in Spain had a strong financial incentive to facilitate as much new construction as possible. Although Irish local government relies much more heavily on central government subsidies than its Spanish counterparts, the potential for generating additional revenue also encouraged Irish city and county councils to facilitate construction. Between 2000 and 2005 Irish local government charges to builders and developers for the costs of providing the infrastructure required for construction (called development levies) rose from €0.11bn to€0.55bn. Although councils were legally obliged to spend this revenue on land servicing during the housing boom these charges became an increasingly important part of the sector's revenue and represented 13.6 per cent of council's expenditure by 2005 (Kitchen, *et al,* 2010). Local business taxes (called rates) are another important source of revenue for Irish council's which incentivised them to grant permission for commercial developments which would be liable for these taxes. Rates are one of the few income sources which councils can spend as they as they wish, without central government restrictions; therefore this source of income is particularly attractive from the perspective of local government politicians and managers.

In addition to facilitating construction indirectly through their role in local government, in Spain local politicians also became involved more directly in the financing of development through their role in the Cajas de Horro– the local semi-public savings and loans institutions which make up about half Spanish financial sector, in terms of deposits and loans (Carballo-Cruz, 2011). Unusually, they are administered by depositors, employees and, importantly, political representatives, thus providing a very real link between development and mortgage finance and local political elites. The Cajas lent aggressively to the property sector during the boom, with over 40 per cent of their total portfolio dedicated to housing finance in late 2009 and later experienced some of the most chronic solvency problems in the Spanish financial sector (Banco de Espana, 2011).

Sub-National Growth Coalitions

The Cajas de Horro were, however, but one part of local 'growth coalitions' which drove construction and property speculation at a local level in Ireland and Spain (Burriel, 2009; Coq Huelva, 2013, Lopez and Rodriguez, 2010). These coalitions were brought together by the factors already mentioned: local administrative powers in relation to planning and urbanisation, local fiscal dependency on development, and 'golden circles' linking financial institutions to political decision makers (Coq Huleva, 2013; Jimenez, 2009), but they also involved local economic interests and corruption (Jimenez, 2009; Lopez and Rodriguez, 2011; Kitchen, *et al* 2010). This combination of factors served to foster strong 'pro-growth' agendas in Spanish cities which conflated construction and the jobs it generated with the public good and as a result that it became extraordinarily difficult to oppose new developments (Burriel, 2011). Similarly Gkartzios and Norris' (2011) study of section 23 tax incentive fuelled development in the rural North-West of Ireland highlights firstly the contribution of local politicians and business interests in having these subsidies extended to a region which did not have the population to support high levels of house building and the socio-political barriers which prevented opponents to development from mobilising. Their research quotes a local government planner who told them: 'I am afraid that the attitude was that every house built in Leitrim is five jobs for a year. It didn't matter that there was nobody going to be able to buy it' (Gkartzios and Norris 2011: 490). This interviewee's viewpoint is borne out by the employment statistics – between 2000 and 2006 the numbers of workers in construction rose by 27.4 per cent in the rural region studied by Gkartzios and Norris (2010), while construction employment nationally remained static.

Regional Imbalances

A key characteristic of the sub national facilitators of asset price Keynesianism described above is that they did not operate in a spatially even fashion in Ireland and Spain. As economic logic would dictate, housing output was very high in the urban growth centres in both countries (Madrid and Barcelona in Spain; Dublin and Galway in Ireland) but, contrary to economic logic, building was also very high in economically and demographically weaker regions (the rural western seaboard of Ireland and Andalucía and Valencia in Spain) (Kitchen, *et al,* 2010; Lopez and Rodriguez, 2011).

This anomaly reflects the particularly strong political imperatives to facilitate construction in underdeveloped regions, where alternative employment options are fewer than in cities and also the fact that in the context of the permissive Irish and Spanish planning systems new building is likely to be politically more challenging in developed regions. Norris and Shiels' (2007: 63) study of housing undersupply in Dublin during Ireland's economic boom, in the context of oversupply in declining rural areas identified "pressure on local authority councillors from residents' associations; landowners and the development industry, regarding zoning decisions" as a key driver of unbalanced development. They report that "In existing urban areas, this pressure usually restricts housing supply (as the wishes of existing residents are the key political consideration), whilst in peripheral areas (where land owners are more influential) it often facilitates the zoning of land for development" (Norris and Shiels, 2007: 63). Moreover, in Spain an inter-urban competitive dynamic emerged whereby each municipality sought to attract as much development over and above their neighbouring rivals (Burriel, 2011). This mania finally led to absurd situations, most notably that of Valencia where, across the regions' 53 municipalities, levels of development were sanctioned that would have provided for a fivefold population increase (Burriel, 2011).The influence of these political factors was reinforced by the spatially uneven impact of financial incentives which encouraged local government to facilitate development. In Ireland rural local authorities had lower income from business rates than their urban counterparts and therefore a greater reliance on highly restrictive central government funding and a stronger incentive to facilitate commercial property development in order to increase their business rates income.

Conclusions

This paper has examined the housing booms which occurred in Ireland and Spain between the mid-1990s and early-2000s and the busts which commenced in 2006-07 and argued that these developments were similar not just in terms of scale, impact and proximate causes but also in terms of fundamental causes. In both countries the housing boom/bust cycles were not merely sectoral phenomena, rather the housing market acted as the main engine of overall economic growth particularly the first half of the 2000s. This asset price Keynesianist effect was underpinned by a suite of policies which enabled asset price growth to underpin rising consumer demand and economic growth (Brenner, 2006).

Unlike other writers who have proposed similar analyses of the recent political economy of developed countries (Brenner, 2006; Watson, 2010; Crouch, 2011; Prasad 2012) the analysis presented in this paper has emphasised the way in which mortgage credit expansion drove economic growth by facilitating increased construction as well as increased consumer demand. Also in contravention of the consensus view, the authors have argued that not all of the policy reforms which facilitated asset-price Keynesianism were designed with this intention in mind (or at least that the probability of this outcome was not entirely evident when these reforms were initiated) and that the political economy of these developments must be conceptualised at a variety of spatial scales. This paper has focussed on the contribution of national policy and regulatory reforms in Ireland and Spain and their implementation by sub-national government in facilitating asset-price Keynesianism. For reasons of space the contribution of supra-national factors, such as globalisation of finance and European economic and monetary union have only been briefly flagged here but it is important to acknowledge the key contribution developments made to enabling credit expansion in Ireland and Spain. Researchers looking at the European level have noted that investment in real estate development in peripheral European countries, such as Ireland and Spain, served as an important target for lending and investment from financial institutions in the core European countries (Hadjmichalis, 2011; O'Riain, 2014; Observatorio Metropolitano, 2012), a dynamic made possible by the integration of the EU and Eurozone, ECB monetary policies and the associated uneven development of Europe (Hadjmichalis, 2011).

Also for reasons of space this paper has focussed on contemporary socio-economic and political drivers of policies to facilitate asset-based Keynesianism such as regional under development, lack of industrialisation and the financing system for local government. However, as Prasad's (2012) longitudinal study of mortgage

Keynesianism in the United States demonstrates, the roots of this policy approach are much older than many other authors imply and this is also the case in Ireland and Spain. Governments in both countries have very long traditions of using real estate and construction as economic stimuli and to achieve social objectives and in many ways asset-price welfare was a logical development of these practices.

The economic legacy Spain's failure to industrialise in the years after World War II was finally resolved in the 1960s when government decided to use on mass tourism and the property development it required as generators of economic growth and employment (Lopez and Rodriguez, 2010; Coq-Huelva, 2013). In Spain, as in many other countries, government has a long history of subsidising promoting home ownership on the grounds that it acted as an alternative to providing mainstream welfare and mediated class conflict (Harvey, 2012). The latter role was particularly important during this country's thirty year period of dictatorship and José Luis Arrese, a Franco-era Minster for Housing famously put it, "we want a nation of the propertied, not the proletariat" (cited in Lopez and Rodrigez, 2011). By the 1970s Spain had transitioned from a nation of renters to a nation of home owners, in which 60 per cent of dwellings were owner occupied, the removal of strict controls on privet rents in the early 1980s entirely marketised the housing system and provided an ideal context in which to implement asset based welfare (Lopez and Rodriguez, 2011).

Irish governments have an even stronger tradition of subsidising house building and home ownership via support for social house building, grants and tax subsidies for home owners and provision of mortgages and these subsidies provided an important economic stimulus in the context of chronic labour over-supply. Norris (forthcoming: 65) reports that "By the mid-1950s the United Nations (1958) calculated that state housing subsidies in Ireland where the highest among 15 western European countries examined both in terms of the proportion of housing capital derived from the exchequer (75%) and of new dwellings which received public subsidies (97%)". However by the 1980s this subsidy regime proved unaffordable in the context of a severe fiscal crisis and the State withdrew from its role as a major mortgage lender and cuts its grants and tax subsidies for house building. Deregulating the commercial lending sector during this period ensured that banks would fulfil this role of supporting real estate and construction without requiring the State to take responsibility for the requisite borrowings. Thus in Ireland asset-price Keynesianism was a logical replacement for the more mainstream Keynesianist government subsidisation of property development employed in previous decades.

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