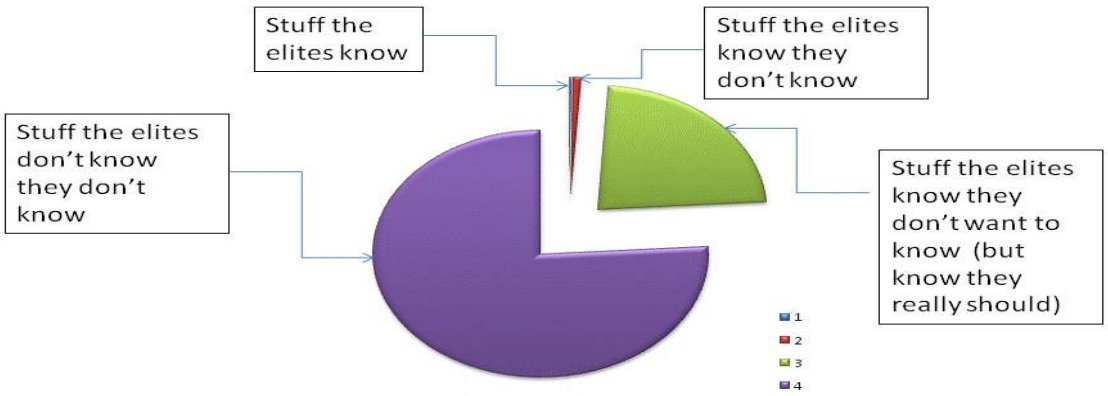
Where did it all go so badly wrong?



'We need to take difficult decisions' Brian Lenihan

No, we actually need to take much better quality decisions, ones that acknowledge the frailty and error-proneness of human cognition, and which are capable of changing as circumstances change and knowledge evolves

Four times in eighty years (the 1930's, '50's, '80's and now) the economy has been wrecked. Rightly, there has been plenty of economic analysis *(e.g.)* of our current problems. There have also been attempts to locate our recurrent problem in the Irish personality (but nations don't have personalities!), or in dispositions inherited from our colonial past (a novel research area for epigenetics, I suppose). Whatever about the Irish personality, there is no-one in power, and few alive, who remember Ireland as it was pre-1916/1921. We need to look for more proximate causes in the decisions made and executed by our national elites (the administrative, political and commercial classes in charge of the institutions powering the country).

How did our elites get it so spectacularly wrong? A useful way of looking at the problem is to focus on persistent and enduring cognitive biases and errors leading to faulty decision-making by individuals (political leaders, civil servants, bankers, etc.) and institutions (social systems and organisations: Government departments, banks, churches, etc). Looking for proximate causes in pervasive and enduring cognitive errors by individuals and institutions (the social systems within which collective cognition is organised) provides a route to prevent us persisting in correctable mistakes. Happily, we have a guide from more than fifty years of data in experimental psychology and experimental brain research to understand how human rationality and reason is bounded and error-prone.

The phrase 'delusional' has been used to describe the behaviour of certain members of our elites, but delusions imply the psychiatric diagnosis of pathological beliefs maintained contrary to all evidence. **Anosagnosia** (a more useful description) is the condition of literally being 'without knowledge' (being unaware) of a cognitive or other impairment, and behaving as if there is no problem. This might describe the issues regarding the lack of a regulatory response to capital adequacy in our banks! Additionally, the knowledge and expertise required to solve the problems confronting us is both greater than our elites understand and can acknowledge. This leads to anosagnosia within the cultures of these organisations. Irish elites do not know that they do not know, nor do they even know what they need to know. The figure at top tries to capture this idea. Both the party political system and the civil service systems undervalue expertise and suppress **cognitive diversity**. Substantial data show that complex and difficult problems (for example, how to rescue a collapsing economy) are best solved by groups with substantial intellectual strength and capacity (*obvious*), and substantial diversity of experience (*not obvious*).Truth be told, the problems we are grappling with are beyond the judgement and capacity of the few teachers and the couple of lawyers comprising the bulk of the Cabinet just leaving office. And we still lack (with some exceptions) the high-level policy formation and broad expertise inputs required to support the Cabinet when it has to make crucial decisions.

Our political system is constructed so that the proving ground for national politics is local council politics. This experience leaves politicians good at political manoeuvring and vote-getting, but ill-prepares them for the national game, which ends up reflected through the prism of the local, rather than the national or international. This is why many of our competitor countries *deliberately bring extra cognitive diversity* into their political systems. Famously, the Cabinet of the US Government has only one elected politician (the President). However, it can field a Nobel Prize in Physics (Secretary of State for Energy, Steven Chu), and world-class economics expertise (Timothy Geithner; Austan Goolsbee). Some have disputed the necessity for some form of national list system because it would have resulted in Sean Fitzpatrick being nominated to the Dáil. (Has this been a conspicuous problem in countries with national list systems?) This is an interesting *cognitive error* – not exploring ***counterfactuals*** to this example, as these would ***falsify*** the claim. It is even more possible that many people of capacity and ability are turned off by the system as it currently stands. After all, we have plenty of talent, but it shies away from electoral politics (to all our costs). Such arguments may result from ***cognitive dissonance*** (the unpleasant feeling caused by holding two contradictory beliefs simultaneously: for example, "our system isn't delivering; I and my colleagues are good people and are part of the system; therefore it isn't the system; the problems lie elsewhere" (with bad bankers, for example, although logically this may also be true!). The potential reduction in available Cabinet slots for non-list constituency candidates because of a list system presumably discommodes some too.

The **iron law of institutions** is the name given to the concern of people who have power in institutions to preserve their power within that institution (even when the institution is failing), rather than being concerned with the success of the institution itself. We have seen this law in action during the recent ructions in Fianna Fáil. Taoiseach Brian Cowen continually asserted as he fell from 52% to 8% in the polls that he was the democratically-elected party leader. Fianna Fáil found itself incapable of terminating (as it fell from 40% to 14% in the polls) his badly-ailing leadership. And this despite the electoral cliff that Fianna Fáil was driving over! Disputes over Brian Cowen's **leadership** convulsed Fianna Fáil. There is a substantial literature on successful and unsuccessful leadership. One **major review** suggests successful leadership requires obeying a few simple precepts. Leaders must be sensitive to their followers, support them, treat them with respect and exceed their expectations; to be positive and inspirational; to work hard and to be seen to work hard for the group; and not be overbearing or arrogant. Which of our leaders, past and present, can tick off these precepts successfully?

Solely focusing on individual leadership and ignoring the situations within which behaviour occurs is known as the **fundamental attribution error,** and is a cognitive bias caused by the salience of the person, and the relative invisibility of the system (group norms, laws, rules, etc.). The lesson for Irish politics is simple: changing personnel is not enough to solve our problems, because the dysfunctional system itself persists. We need substantial systemic changes too. Decisions are taken within a group context (think Cabinet collective responsibility). **Groupthink** occurs when a group makes poor decisions because of high levels of within-group cohesion and a desire to minimise conflict (as might happen in an exhausted, embattled and worn-out Government Cabinet!). The necessary critical analysis does not occur. NAMA would hardly have emerged as ***the*** optimal policy response had there been a competitive public forum to test and vet competing policy ideas (with the Cabinet adjudicating). The hugely-criticised 'Credit Institutions (Stabilization) Act 2010' (**e.g.**, **e.g.**, **e.g.**, **e.g.**) would hardly have emerged from such a process. Such a process would show that vesting such astonishing power and authority in the frail, bounded rationality of a single individual (the Minister for Finance) is a recipe for future catastrophe. Groupthink can be reduced by the group having an extensive network of **weak ties** to other individuals and groups. Weak ties provide us with novel ideas and knowledge, and provide a route to 'reality-test' planned courses of action. An extensive national and international *weak tie* network would provide Government Ministers knowledge, insights and ideas unavailable within the Dáil bubble.

'**Theory of mind**' is the name given to our ability to see the world as others might see it ('other-centred perspective-taking'). It is central to our social behaviour and capacity for empathy. Recent studies have disclosed a

brain area (the *mirror neurons* of pre- and supplementary cortex, if you must know) that allows you to simulate what others are likely to be thinking by mirroring their behaviour. Being able to take the perspective of others is vital for preventing catastrophic errors of social judgement by understanding what others will make of your decisions and actions. It is unlikely that Brian Cowen would have attempted to 'refresh' his Cabinet via the bizarre attempt to parachute in a bunch of new ministers if he had first tried to imagine himself into the shoes of his Government partners, or indeed, the public at large.

Verificationism (also known as *confirmation bias*) is a pervasive cognitive error, where evidence favouring a particular point of view is collected and weighted heavily, and contrary evidence is discounted or ignored. House prices have been rising for years; therefore, they will continue to rise, so property is a safe-bet investment. Its opposite, **falsificationism**, is a difficult habit of mind to acquire. It is a must for any working scientist. Falsificationism requires considering what empirical evidence would invalidate (falsify) the position you are adopting. It seems, for example, that no amount of empirical evidence will convince the Labour Party that free fees do not increase access to third-level education (under-privileged students did not pay fees anyway!). Instead, just about all of the empirical evidence shows that to increase access, among other things, you need to intervene as early as is possible (from the pre-school level, and sustain this intervention through *all* of the school years). There are other variables too, from mentoring, to third-level institution-under-priviliged school relationships, etc. Cherry-picked anecdotes from a taxi-driver (former Minister Breathnach) are not evidence. One way of avoiding this bias is to state clearly what empirical evidence would falsify your opinion; another is to build an evidence-based brake into policy formation. In science this is done by international, anonymous, expert '*peer review*'. Peer-review and similar systems can be built into the process of Government. The terrible fiscal policy errors of the past ten years would likely have been detected if a properly-appointed and supported independent Fiscal Council had the job of *publically peer-reviewing* proposed Government policy. The mess which has torn up the corporate memory of Government departments (decentralisation) would not have made it out of Charlie McCreevy's office had robust evidence-based policy tests been in place. The arguments for decentralisation pivoted on the **focusing illusion,** a cognitive error which emphasises only upside arguments (local benefits: '*Welcome to Parlon country*' indeed!), but ignores costs (the wholesale destruction of corporate memory and procedure within departments). The whole country knew it was a boondoggle, but reversing policy mistakes of this scale and magnitude is very difficult indeed. Indeed, the whole debate about public sector efficiencies (the Croke Park Agreement) could usefully focus on the deadweight effects of appalling Government policy decisions, and figuring out how to reverse them.

Language has the important property of '*framing*' arguments and discussions. The crime debate in the UK was dominated by the phrase '*short, sharp, shock*', which relied on the folk theory that quick and severe punishment would shock teenagers out of criminal tendencies. (The pleasing alliteration of the successive sibilants was an important, but useless, selling point too). Short, sharp shocks, of course, predictably have no such effect, but why let data from the psychology of punishment and from criminology influence debate? The phrase '*cut and run*' was used to forestall debate about the palpably-failing US military strategy in Iraq, until empirical reality forced a change of direction. The debate in Ireland over privatisation uses phrases designed to prevent discussion, such as '*selling off the family silver ware*' or, much less analytically, that privatisation is '*stupid*' (Ex-Minister Ryan). Who wants to be stupid? O course silver plates aren't much good if you don't have the food to eat from them. In the UK, the privatisation debate is about how a 'war chest' can be created for stimulus purposes. The consequences of the language used about privatisation frames very different outcomes. Unless one believes that the current configuration of Government ownership of assets is exactly optimal (an *unfalsifiable* position), then privatisation is reasonable to consider. It is our capital after all, and can be used to solve problems. By some estimates, the ESB is worth about €7.5 B; there are perhaps 750,000 mortgages in the country. Privatisation would allow the quick writing down of these mortgages by €100,000 a piece, relieving enormous and growing distress, and giving the banks additional working capital to relieve other logjams in the economy. I am sure there are a thousand good reasons why this policy can't be enacted, but there are 750,000 reasons why it could. And *it is* our money anyway, isn't it?!

A truism of human behaviour is that people are **incentive-driven** (even by perverse incentives). Our economy became focused lopsidedly on property development because of tax incentives which people rationally responded to, resulting in a huge excess of un-needed properties. *Groupthink* suggests bulldozing them. However, we could incentivise property purchases by granting Irish residency to non-EU Nationals who purchase these properties for cash (no mortgages please)! If it is possible to incentivise investment in fixed assets such as property, it is possible to incentivise investment in new asset classes and businesses that are tradeable and saleable. Anglo-Irish Bank would not be in such trouble if it had a diversified loan book. Ireland Inc would not be in similar trouble, if there were multiple investment vehicles for rational investment in intellectual property, as opposed to the singularly obsessive concentration on investment in commercial and residential property. If we want an entrepreneurial culture which creates desperately-needed mass employment, then entrepreneurial activity needs to be incentivised. Adding taxes and other burdens on the self-employed reduces the risk-taking required to create employment on the scale needed to rescue the economy quickly. Risk-taking needs incentives; otherwise, why bother?

There are many other **cognitive errors** (for example, availability and affect heuristics, motivated reasoning, competence illusions, illusory superiority) which humans are also prone to (especially under duress). Memory (particularly recall) is badly affected by stress and lack of sleep. The decisions taken on the night of the infamous bank guarantee surely would have been better, if the Government had access to expertise and bought itself time (for example, by having a forced bank closure for 48 hours). This would have led to decisions in the cold light of day, with appropriate supports and inputs (of course, having an Economic Advisory Council in place would have helped). Memory for the precise sequence of events would be improved too!

Our elites must recognise that individual rationality and cognition is limited and error-prone. A system driven by the unrestrained cognition of individual ministers or others will fail; imposing political control where good policy formation should obtain is a recipe for disaster. *And we know this, but this is the mistake we repeatedly make*. Thus, our institutions must be re-engineered to be adaptive, plastic, and capable of learning (especially upsetting and unpleasant truths). Robust institutional processes are required to recognise error and failure quickly and to change course rapidly. However, the glacial pace with which our elites move leaves me believing this is a forlorn hope; we have seen little recognition of the need for change, despite the disaster that has occurred.

(*2516 words*)