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“Centering Housing in Political Economy: The Financial Foundations”

Brett Christophers and Manuel Aalbers have done a great service to political economy by highlighting the central importance of housing in modern political economies, and by extension in contemporary politics. They are correct that comparative political economy neglects housing. Of the approximately 11000 papers presented at the American Political Science Association annual meetings 2002 to 2008, fewer than 70 dealt with housing, Fannie Mae/Freddie Mac, mortgage backed securities, asset bubbles or any of a number of similar issues central to the 2008 global financial crisis. Less consistent data are available for papers at the American Economic Association annual meetings, 2005 to 2008. But here too papers dealing with housing or mortgages largely had nothing to do with the emerging bubble, and at roughly 1 percent, accounted for a lamentably small proportion of papers.

This neglect comes at its own analytic peril, not just because of the central role that housing finance played in triggering the ‘Great Recession’ of 2008 onward, but also because housing finance and thus housing tout court plays a central economic role even in non-crisis periods. To cherry pick a few revealing facts: on the eve of the crisis in 2008, US mortgage backed securities (MBS) constituted roughly 8 percent of total global public and private debt securities, and all US mortgage debt constituted roughly 6 percent of the stock of all global debt securities and bank assets. Their salience was even higher in the US securities market, with MBS at 21 percent for all US public and private debt securities, and with all mortgages at 24 percent of all US debt securities and bank assets. In many countries, mortgages are the single largest asset class in the financial system, often dwarfing the notional capitalization of the domestic stock market. In one of the other academic fields in which I live, international political economy, billions of pixels have been spilled on the consequences of capital flows to emerging and developing economies, yet in nearly every year from 1990 forward, the flow of US mortgage originations exceeded gross inflows into emerging economies.

Similarly, residential construction constitutes about 25 percent of gross fixed capital formation and thus about 5 percent of total GDP in the typical OECD economy. No other single sub-sector of the economy matters as much for investment in most economies. This is why all but one US recession has been led by

a drop in housing investment, and all US recoveries have been led by expanded housing construction. On just these very simple levels, prior to the social relations around housing, housing deserves more attention. And as Christophers and Aalbers point out, there is no lack of more subtle issues around housing that merit attention. While I am broadly in agreement with Christophers and Aalbers, they miss or underplay two critical aspects around housing as a research domain. The first is the political tension around housing as use value and exchange (or asset) value, and the second is the degree to which an abstract theory of housing is possible.

First, Christophers and Aalbers accurately note the traditional (albeit marxist) contradiction between the use value and the exchange value of houses. Yet the disjuncture here is more acute than they signal. Put simply, housing finance instruments can be mobile, yet, with the exception of American manufactured housing, houses are fundamentally immobile. Indeed, little in life is more granular, immobile, irreducibly physical and specific to place than housing, yet housing finance generates globally tradable securities that are generic, abstract, immaterial, and seemingly dislocated. Neither of these is a natural outcome. The global trade in mortgage securities and the rise of global capital flows into mortgage finance more generally was a doubly politically mediated outcome.

First, the availability of enough mortgage debt to make securitization both worthwhile and make the behavior of those securities statistically robust enough to trade them requires the state to help banks resolve their maturity mismatch problem. Maturity mismatches are natural to banking: banks borrow short term from depositors and – sometimes – lend long to would be homeowners or industrialists. The risk of a bank run – short-term depositors withdrawing money that is tied up in long-term loans – limits the amount of mortgage money banks will advance. Deep mortgage markets require political solutions to the maturity mismatch problem, like Fannie Mae in the United States or the Danish system of covered bonds (*pantebrev*).

Similarly, the international Basel 2 agreement on financial regulation made MBS much more attractive to banks because they counted as tier 1 capital – capital that was not discounted – on banks' balance sheets, and thus allowed banks to maintain capital adequacy ratios with less capital. Re-switching of capital might be relatively painless at a domestic level, but at the international level it requires acquiescence and agreement by national financial regulators. The huge political push to permit and expand mortgage securitization inside Europe during the 2000s shows the barriers that have to be overcome for re-switching to occur. Conversely, those barriers prevent expansion of mortgage markets. None of this is particularly new, though: the huge flood of money that permitted 'Marvellous Melbourne' to explode from a sleepy hamlet into a city of 500,000 in the fifty years to 1891 flowed from Britain to Australia because of the legal infrastructure the empire provided and the low returns on British public debt (Weaver 2003; Belich 2009: 356-366). The instruments themselves were not sophisticated, although the lack of any mechanism for ameliorating the maturity mismatch led to the classic busts and bank runs of the 19th century. What is new is the absolute and relative scale of state intervention, which in turn permits a vast relative and absolute expansion of mortgage debt. This intervention is not an automatic response to economic conditions, or we would see the same mortgage systems everywhere.

Second, following Harvey, Christophers and Aalbers seem to be edging towards a generic and cyclic theory of housing in relation to the logic of capital accumulation. I do not think a generic and cyclic theory of housing is possible. The financial, emotional and cultural logics around housing have changed markedly over the last century in secular as well as cyclic ways. The vast majority of urban dwellers lived in rental housing before World War II. These rentals were an important part of bourgeois wealth in, among others, Britain. There, elites, Britain's 1 %, controlled roughly one-third of housing. But the salience of housing wealth was even greater for the middling income groups that, circa 1900, controlled

an additional third of housing wealth, and, moreover, for whom that third constituted a much larger proportion of their wealth, roughly 40 to 50 %, as compared to the elite, for whom land and housing typically constituted only 20 % of wealth (Offer 1981: 129-130).

Late 19th century Britain was a harbinger for the expansion of housing wealth into the middle of society everywhere. The salience of home equity for ever-larger slices of non-elite groups grew secularly, especially from the mid-20th century as homeownership became widespread after the war. But just as in 19th century Britain, broader freehold tenure post-war increased as much for geopolitical reasons as for economic reasons. Put differently, the American state had a strong interest in promoting homeownership and a consumer society as a route to political quiescence in western Europe (de Grazia 2005; see Offer 1981: 149-157 on property ownership and Tory politics). Just as the Marshall Plan exported American production techniques and labor relations, American advisors helped create the Government Housing Loan Corporation in Japan and the Fondo Per L'Incremento Edilizio in Italy, and helped repurpose the Credit Foncier in France. Increased homeownership was not a natural outcome of the market. Rather, in this phase housing was very much a physical good, a consumption good, whose production was managed in order to stabilize aggregate demand and politics in one combined policy initiative. Housing was not primarily an asset, even if the imputed income from owner-occupied housing permitted states to shave their pension costs, because the very systems of financial regulation that made broad homeownership possible also tended to segregate housing finance from other financial markets. In its extreme versions, state banks were the primary mortgage lender.

From a financial point of view, it should make no difference whether a property is owner occupied or being let by an indebted owner. A mortgage is a mortgage. Yet everywhere states built up enormous stocks of owner-occupied housing. In doing so they created an enormous pool of potential capital gains. Who would capture these? The deregulation of finance in the 1980s shifted tightly controlled housing finance and production systems towards systems that largely allowed homeowners to capture the gains from rising housing prices. This was an enormous change from the immediate post-war period, when housing's use value predominated over its financial value. To be sure, as Christophers and Aalbers note, this shift coincided with the onset of a period of over-production (Brenner 2006). And the release of homeowner equity – that capital gain – into consumption surely powered both the US and thence global economy in the 1990s and even more so the 2000s. While most US homeowners still regarded housing as a consumption item, the securitization of mortgages and the withering of the middle-class (i.e. health and education) welfare state forced many to treat their house as a piggy bank. Financialization in housing looms large because of the size of the assets involved, which are second only to pensions (and often are the assets constituting market pensions).

The shift from the production oriented post-war economy to the current financialized economy, however, was not unique to houses. This shift from occurred in virtually all spheres. So it is hard to see a specific logic of re-switching driving housing. The functional argument that purchasing power had to be found somewhere not only raises the question 'if not housing, what?' – with the obvious answer that only housing assets were large enough to match enough debt on the global balance sheet and thus generate enough purchasing power to move the global economy – but also raises the questions where and why dispersed private homeownership was so pervasive in the United States and a few other economies. This is ultimately a political, not functional relationship.

Both of the points above bear on the current situation. The increasingly unequal distribution of income in the United States and other large rich economies has been retarding consumption for decades, contributing to the imbalance Brenner (2006) identified (Cynamon and Fazzari 2014). Paradoxically, this has gone hand in hand with rising house prices, to the point where housing wealth through direct and indirect ownership constitutes a (probably unsustainable even post-bust) proportion of total wealth for

the 1 percent (Piketty 2014). The emergence of private equity investment in housing – something Aalbers has written on – will only accelerate the trend towards a new rental society. Widespread homeownership was a historically contingent phenomenon created by the same unique politics that anchored the historically brief 30 glorious years. We've been living off the political, social and economic capital built in those decades for years. But the income to sustain that capital both as a social relation and as a balance sheet entry is no longer available in the increasingly larger portion of the population that finds itself as renters. The first big financial crisis of the 21st century, like those of the 19th century, was thus unsurprisingly rooted in unsustainable investment in land and real property, even though urban and not rural property was the object of speculation.

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