The Debt Safety-net: homeownership and failures of asset-based welfare in the UK

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Everyday politics of ‘the economy’ of boom, bubble and bust

- Everyday life/Everyday politics of finance concerned with social deepening of financialization in the boom(mid-1990s), bubble (post-2001) and bust (since 2007/8)

- My attempt is to add an everyday ‘economy’ (Oikonomia) or everyday politics of the household to analyze indebtedness and finance-led growth

Political Economy of housing and homeownership

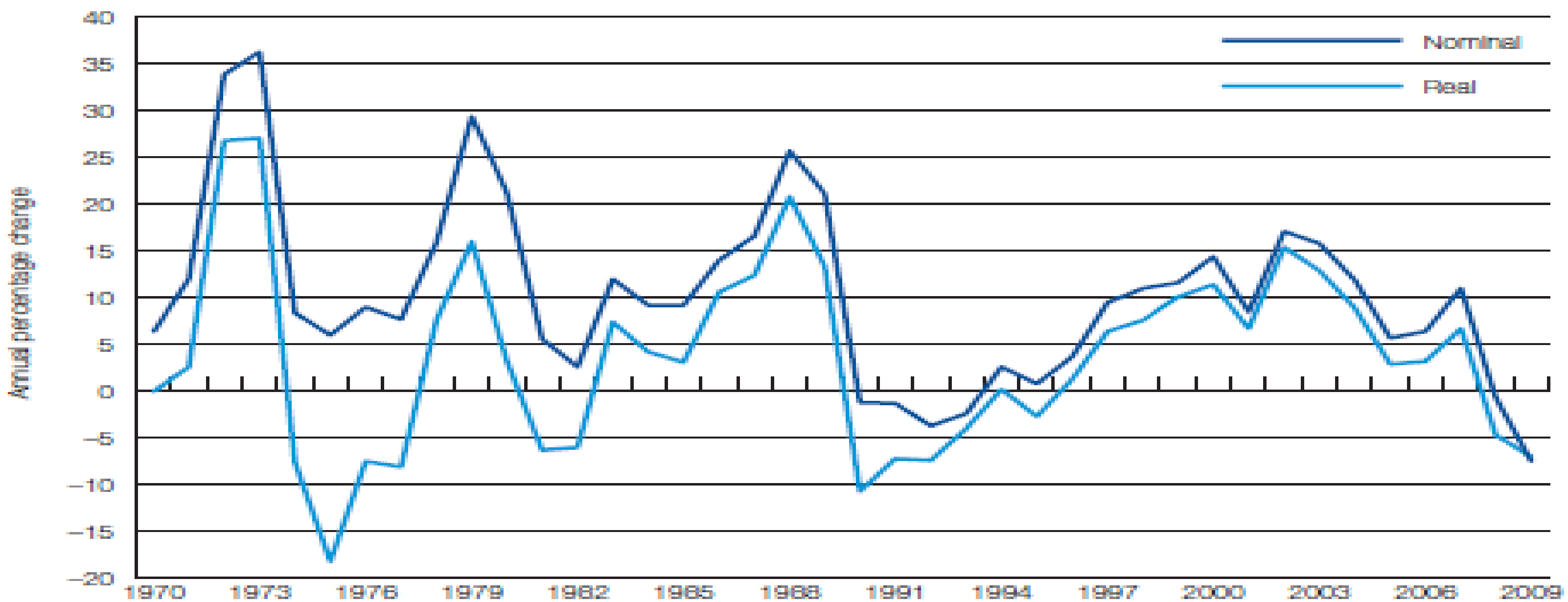
- Anglo-American growth model
- Asset-based welfare
- Varieties of Residential Capitalism

Housing as part of growth model

- Serious limits to the housing market ability to create growth

1. Housing market volatility creates drag in downswing via ‘balance sheet recession’
    - Equity withdraw converts asset (wealth holding) into debt:
    - Indebtedness/decumulation drives consumption in upswing and balance sheet recession in downswing
2. Creates low interest-rate bias: destroys domestic savings and inhibits monetary policy (no levers to pull)

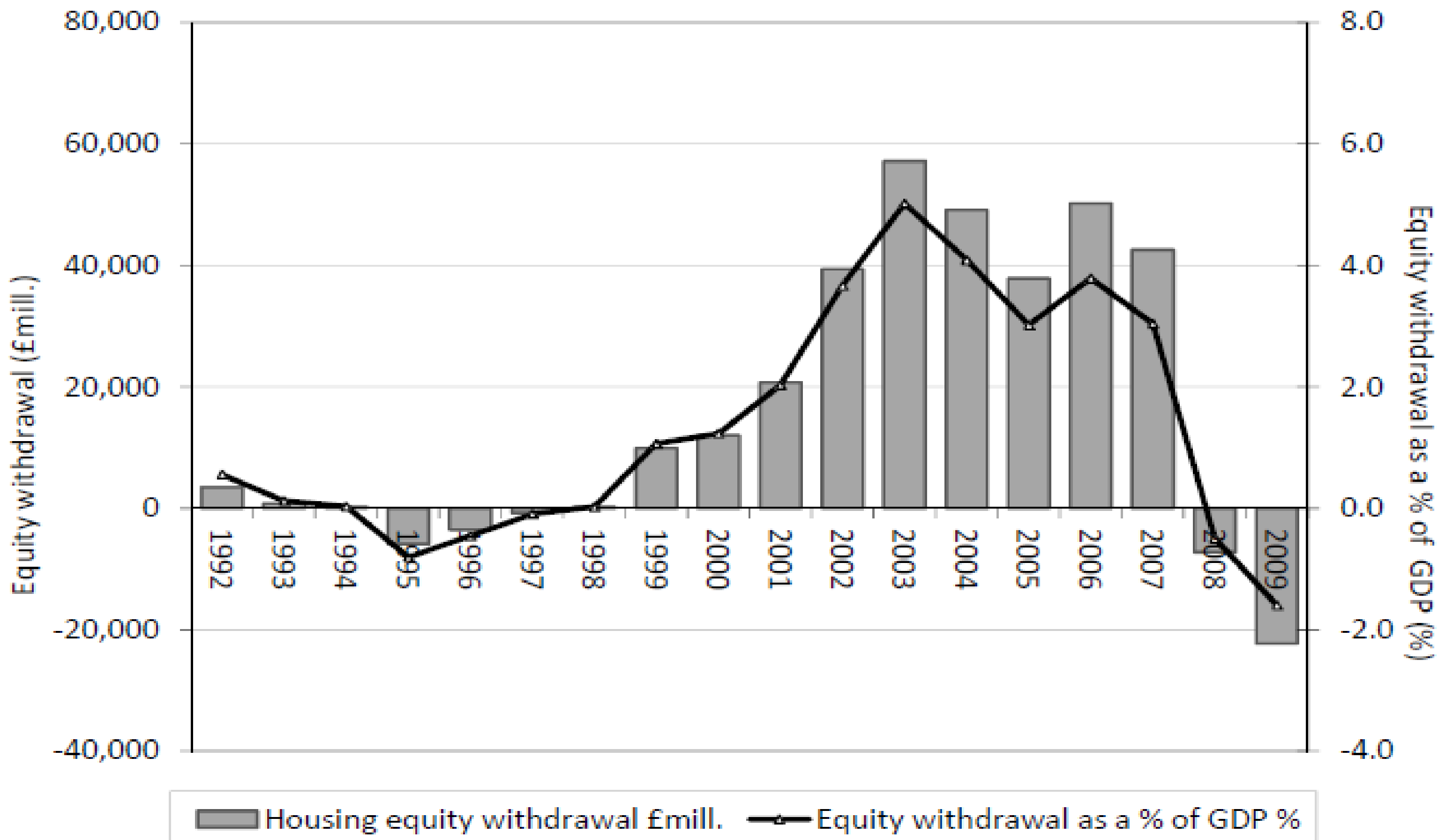
UK house price inflation 1970-2009



Note: Real prices calculated using the Retail Price Index.
Source: CLG Live Table 593

- The UK has one of the most persistently volatile housing markets, experiencing four major boom and bust cycles since the 1970s.
- The two most recent property crashes have involved falls in the nominal (cash) as well as the real (inflation-adjusted) value of houses.
- Because mortgage debt is fixed in nominal terms, house prices falling on this measure is particularly damaging as it can cause home-owners to fall into negative equity.

UK housing equity withdrawal compared to GDP



Homeownership and asset-based welfare

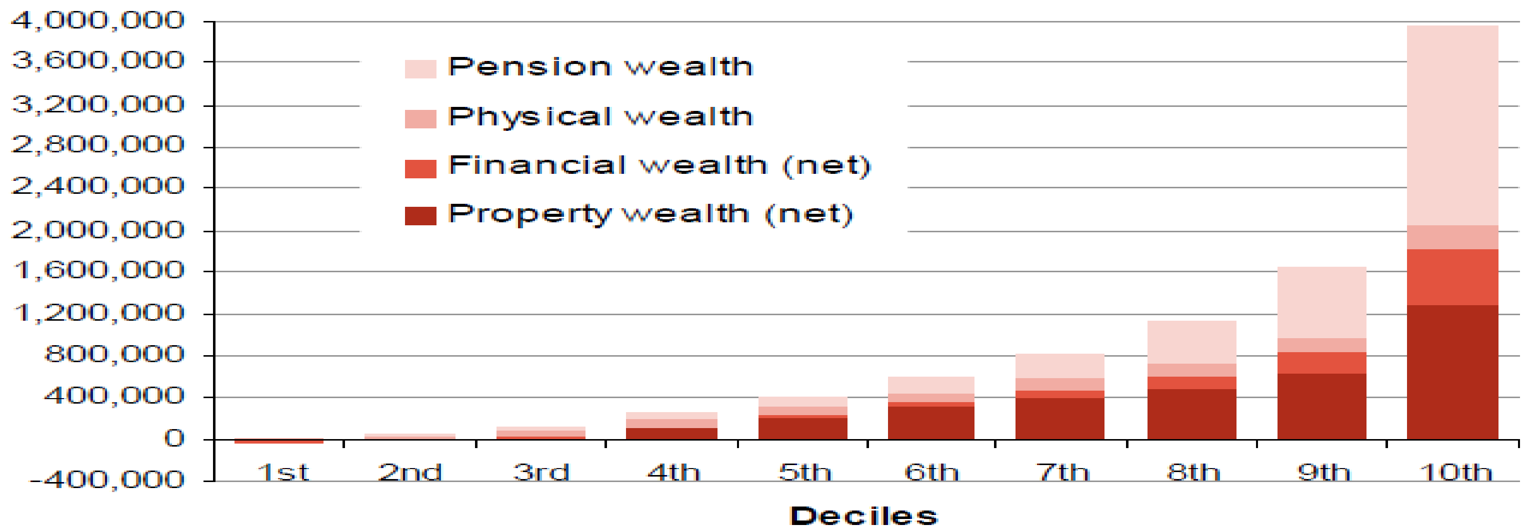
- Is not 'welfare' in any real sense, instead a policy trope

1. Housing wealth is unequally distributed
   - Housing wealth only in top-side of distribution
   - Regionally varied and/or tends to be concentrated in urban and suburban areas
2. Homeownership rates did not grow in meaningful way under asset-based welfare regime
   - Only particular age and income groups benefit
   - Eating your young: huge intergenerational inequality
3. Limited safety-net for homeowners: privileged group in promotion but not in protection

Breakdown of aggregate wealth: by deciles and components, 2006/08

Great Britain

£ million

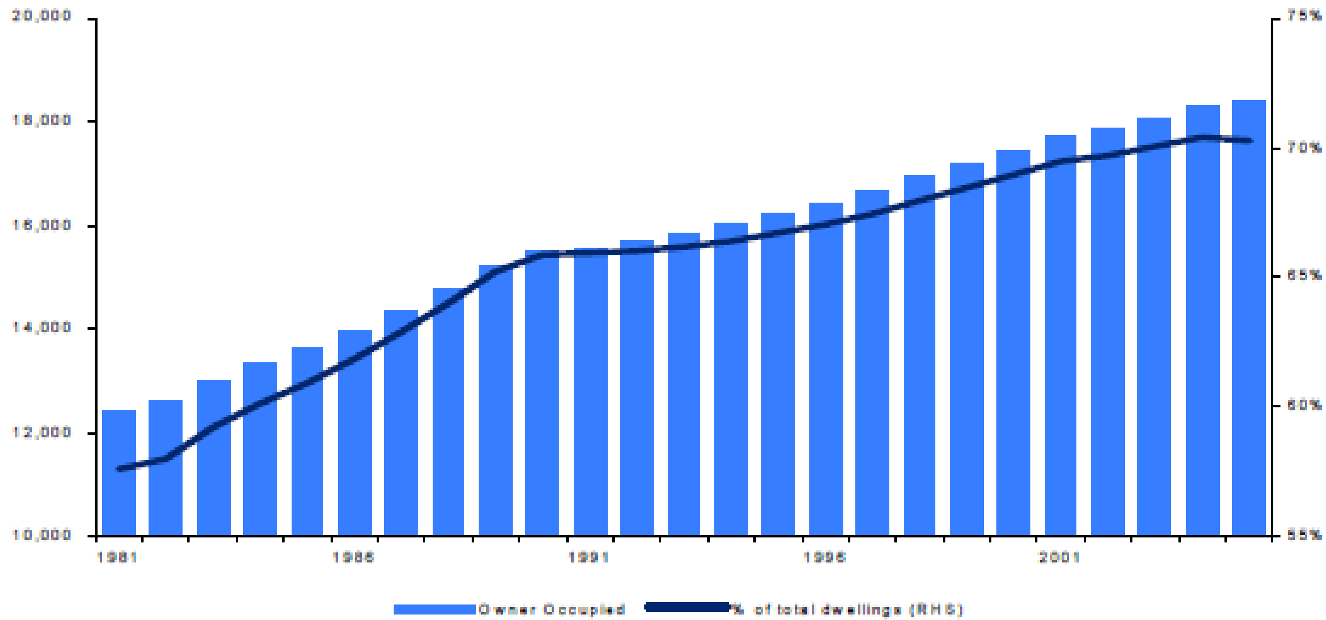


Source: Office for National Statistics

The ONS report also presents a standard measure of inequality, the Gini co-efficient, which takes a value between 0 and 1, with 0 representing a perfectly equal distribution and 1 representing 'perfect inequality'. In 2006/08 the Gini co-efficient varied by type of wealth as follows:

0.81 for net financial wealth
0.77 for private pension wealth
0.62 for net property wealth
0.46 for physical wealth.

Homeownership in the UK, 1981-2005

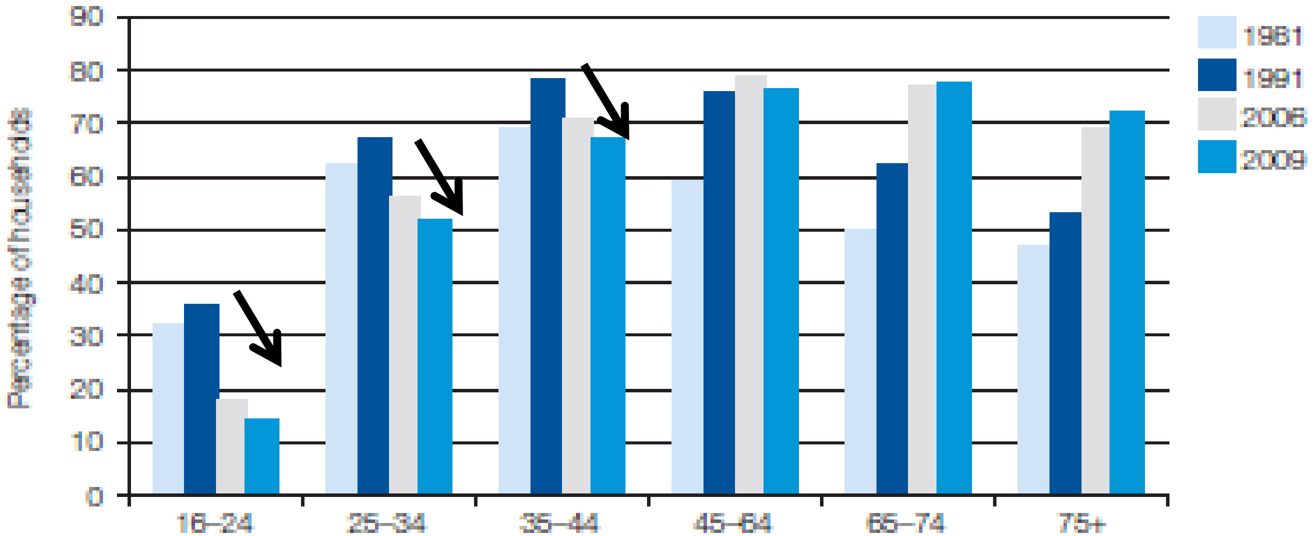


Source: DCLG

Growth of home-ownership from 1981 onwards: pronounced from 1981 to 1991, levels off and stagnates in the mid 2000s

In 2006/8, according to the ONS (2009), 68 per cent of the UK population owned their own home (30 per cent owned their home outright and 38 per cent of owner-occupiers had a mortgage). A small minority of UK citizens, 6 per cent, owned more than one property in the UK (ONS, 2009). In other words, around one owner-occupier in 10 owned more than one property.

England: homeownership by age group



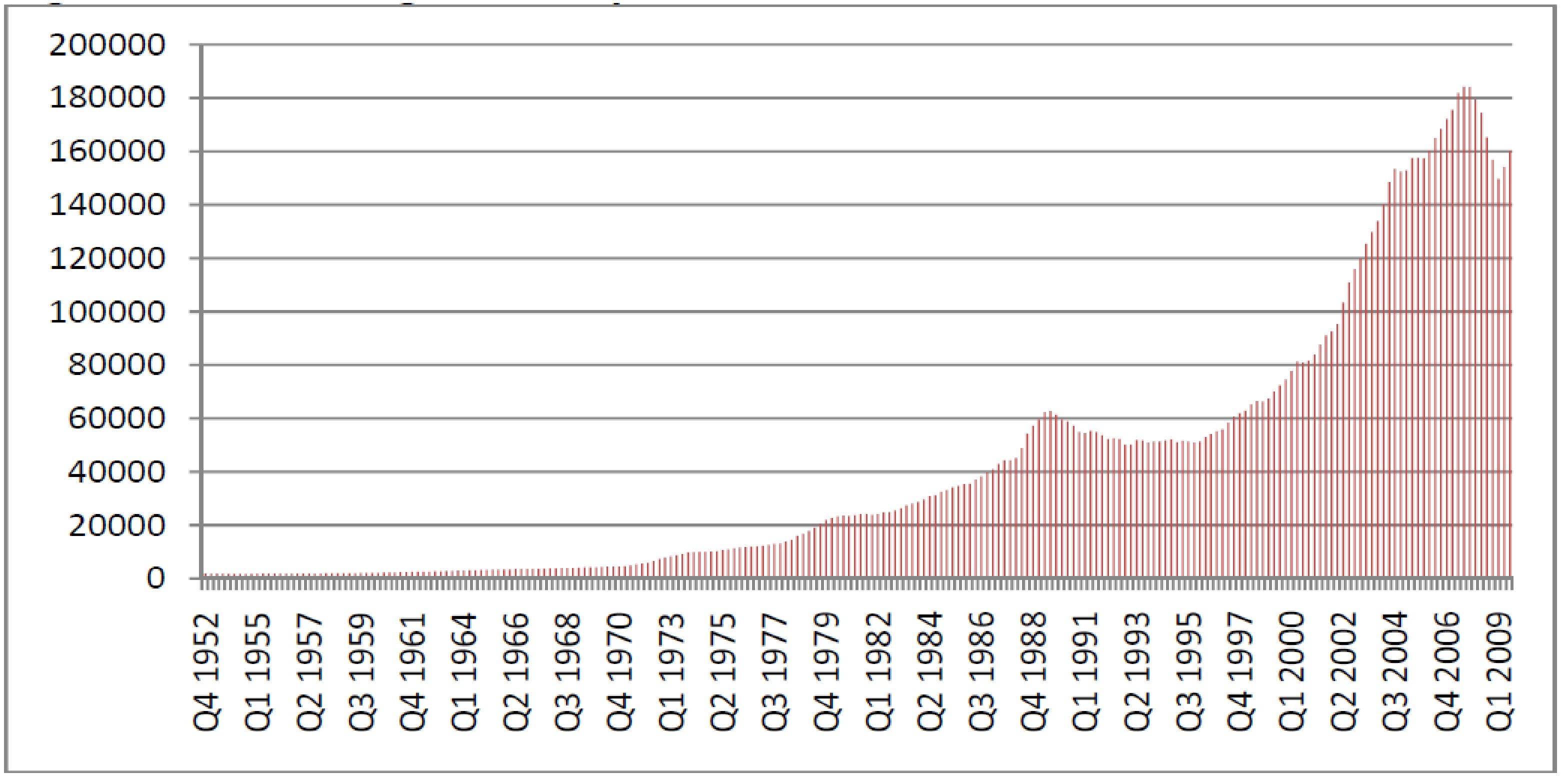
Source: Survey of English Housing, Table 370; English Housing Survey, Table FA1201[5]

•Since 1991, home-ownership in England has fallen most strongly among the youngest age groups, but also among people aged 35-44.

•Meanwhile ownership continued to rise sharply among the older age groups, reflecting the growth in access to this form of tenure in the past.

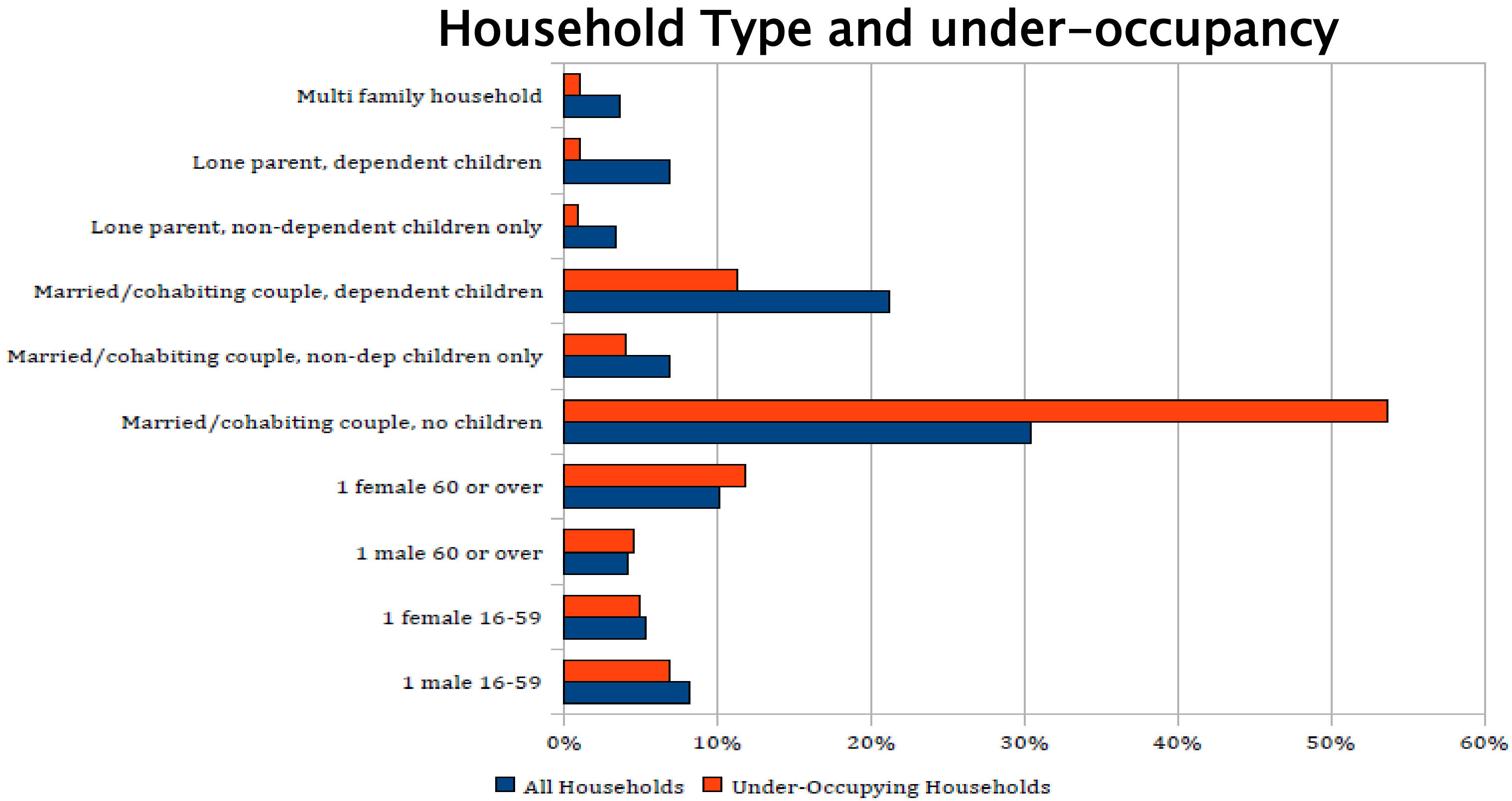
•Most recent data (for 2008/09) shows that ownership has now fallen among the 45-64 age group and levelled off among those aged 65-74.

UK Avg house prices 1952-2009



Source: Nationwide, 2009

- neo-liberalisation and deregulation of the UK's financial system [in the 1980s] combined with housing privatisation mainly through the Right to Buy, were key to promoting the growth of owner-occupation
- Home buyers in mid-1980s and mid-1990s benefited most from house price inflation



(Source: Survey of English Housing, three year average 2005/6–2007/8)

Intergenerational foundation study found that: those households which are suffering most from over-crowding are growing families in smaller properties, whilst an expanding new older demographic of single people or couples is holding more housing space than it really needs.

Reconsidering Homeownership

- Mortgage; is from the Latin word mori– for death and –gage is a pledge to forfeit something of value if a debt is not repaid. So mortgage is literally a death pledge.

- Ownership of asset may not be as important as income generating capacity of asset (against total cost of purchasing asset)

Housing from household perspective

- Mortgage is a pre-emptory claim against income
  - Home equity loans and other forms of borrowing
  - Costs of homeownership (repairs, maintenance, improvements, insurance, taxes) are often not considered as claim against income or in claims about benefits of homeownership
- Gains from housing relative to mortgage costs which are determined by size of down payment, amount of loan, interest rate and length of repayment.
  - This makes generalizing about ‘benefits’ of homeownership highly contingent

Debt safety-net

- Housing market volatility can seriously inhibit capacity to build wealth
- Borrowing has become a necessity (not option) for social participation and protection
  - Housing, home equity, auto, consumer debt, education debt
    - Home equity loans reduce wealth holdings (convert asset to debt) and become an additional claim against present income
    - House as reserve of cash used for many purposes: start/finance small business