# HOUSING, RECOMMODIFICATION, AND FINANCIAL CRISIS IN IRELAND, SPAIN, AND THE UNITED KINGDOM

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MSc International Public Policy Analysis Dissertation, 2011/2012

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## INTRODUCTION

> ' ... those of us who have looked to the self-interest of lending institutions to protect [shareholders'] equity (myself especially) are in a state of shocked disbelief. Such counterparty surveillance is a central pillar of our financial markets' state of balance. If it fails, as occurred this year, market stability is undermined.'
>
> - Testimony of Dr Alan Greenspan
>
> Committee of Government Oversight and Reform

In one sense, the U.S subprime crisis and subsequent Global Financial Crisis originated in the need of tens of millions of U.S citizens for shelter. Dr Greenspan's 'shocked disbelief' before the Committee of Government Oversight and Reform owed to his own belief in the 'invisible hand', Adam Smith's hallowed notion that, by and large, economic systems and the agents within them are best served by the latter's mere pursuit of their self-interest in free, open, and competitive markets. The problem of coordinating the uncountable number of decisions and actions of millions of institutions and billions of households linked together in a global nexus - decisions about the supply of and demand for structured investment vehicles, derivatives or even places to live - will be solved through spontaneous self-organisation. That it should fail - of all places in financial markets, in defiance of Eugene Fama's efficient markets hypothesis - wrong-footed not only the ex-Chairman of the Federal Reserve, but the neoclassical orthodoxy in academic institutions, international organisations, and governmental departments around the world. 'How Did Economists Get It So Wrong?', enquired Professor Krugman (Krugman, 2009).

Arguably, not all economists had erred (see Galbraith, 2009; Bezemer, 2009) : for example, following Keynes, Hyman Minsky (1992), in the 'financial instability hypothesis', had theorised how changing income-debt relations within economic systems could lead to financial instability and crisis. Moreover, the five most severe 'bank-related' financial crises of the postwar period, predating the 2007 debacle, in Spain (1977), Norway (1981), Finland and Sweden (1991), and Japan (1992) were all real estate related (Reinhart & Rogoff, 2009 : 4). In relation to housing systems, as in other areas, policymakers associated with the neoclassical orthodoxy (and neo-liberalism) in international organisations have advocated market-based structural reforms, if primarily in relation to developing countries (see World Bank, 1993, for example). By contrast, market-based restructuring has been directed at the national level in the advanced economies, the focus of a 'decommodification and housing' literature (see Doling, 1999) in comparative housing and housing studies and of a varieties of residential capitalism, or VRC literature in comparative and international political economy, in which it is argued housing has been recast as a 'means to wealth' rather than a place to live, and a social right (see Schwarz & Seabrooke, 2008 and Mortensen & Seabrooke, 2008). As the housing finance system is a subsystem of both the housing system and the financial system, restructuring in any of the advanced economies to experience real estate related financial crisis will likely be a large part of the story.

In this dissertation then, I explore the nature of market-based restructuring, or recommodification, and its relationship to financial instability and crisis. My aims are fourfold :

- explore the nature of recommodification and indicate whether destabilising behaviours are instigated endogenously, or precipitated by exogenous factors;

- indicate the presence of a positive feedback mechanism between the issuance of credit and asset price inflation;

- identify a consecutive transition from 'hedge' to 'speculative' and 'Ponzi' financing regimes - as per the financial instability hypothesis - at the level of the economic system (Minsky, 1992);

- and finally, explore the nature of financial instability.

I use a qualitative, case oriented approach, constructing cursory histories of postwar restructuring in Ireland, Spain, and the United Kingdom from some secondary literature and simple, descriptive statistics, before comparing the cases and the ideal-typical scenario described in the financial instability hypothesis. In the Literature Review, I take three important surveys of economics (see Krugman, 2009; Galbraith, 2009; and Bezemer, 2009) as starting points for a wider review of relevant contributions in the macroeconomics and housing and financial crisis literatures. I focus on qualitative and quantitative models of financial crisis, particularly Minsky's (1992) paper. I then review narrow and comprehensive views of (re)commodification in housing, and the most relevant contributions to the VRC literature before developing a theoretical basis for how recommodification, in the comprehensive sense, increases liability to financial instability and crisis. In the next chapter, I explain my choice of method, the case (and period) selection, and the data sources used to compile the nineteen figures in the study. The three case studies are presented in the following three chapters, before I discuss the cases in relation to the research aims in chapter seven. I review the study in the concluding chapter.

**LITERATURE REVIEW**

ECONOMICS, HOUSING AND FINANCIAL CRISIS

In 2009, James K. Galbraith, and Dirk J. Bezemer each published reflections on the U.S subprime crisis, and subsequent Global Financial Crisis (Galbraith, 2009; Bezemer, 2009). Galbraith, responding to an essay by Paul Krugman in the New York Times Sunday Magazine, in which he had asked 'How Did Economists Get It So Wrong?' (Krugman, 2009), surveyed his own 'habitual reading', supplemented by suggestions from a number of economists (Galbraith, 2009 : 88). By contrast, Bezemer regarded the Crisis as a ' "natural experiment" in the validity of economic models, cataloguing pre-Crisis publications regarding economic and financial, particularly real estate related developments in the U.S and elsewhere, differentiating between those anticipating financial crisis, according to explicit criteria, and those failing to do so, and analysing 'core differences' in their respective theoretical bases (Bezemer, 2009 : 2). Each was concerned both to refute the idea that the crisis had not or could not have been foreseen and to advertise relevant (non-mainstream) literature.

Krugman, and Galbraith and Bezemer largely agreed on the state of mainstream macroeconomics : an orthodoxy, including both its two main competing groups of 'freshwater' (e.g. University of Chicago) and 'saltwater' (e.g. MIT) economists had emerged in the profession, more unified by a common theoretical and methodological orientation than divided by latent policy orientations that had been in any case hidden during the period of the so-called 'Great Moderation'. Krugman described at its heart, an 'idealized vision' of 'rational individuals interacting in perfect markets', and a 'faith that markets will solve all problems'; Bezemer, its 'standard assumptions .... a life cycle model of consumption, a transactions model of money demand, a vertical long run Phillips curve, and long run neoclassical models of fixed investment, labour demand, pricing, and the distribution of income' (Krugman, 2009; Bezemer, 2009 : 19). Equilibrium theory and the general equilibrium models used in all official forecasting and policy analysis (Bezemer took *Macroeconomic Advisers*' Washington University Macro Model, or WUMM, and the OECD's 'small global forecasting model' as cases in point) neither explicitly include such monetary and financial variables as credit flows, or 'flows of funds', and debt, nor, through the exclusive determination of such financial variables as are included by real sector variables and relations, reflect them adequately (Bezemer, 2009 : 20); 'blindness to the very possibility of catastrophic failures in a market economy' was ensured 'by design' (Krugman, 2009; Bezemer, 2009). Similarly, Chairman Greenspan's assertions of confidence before the U.S House Financial Services Committee in 2005 could draw on the financial corollaries of the economic orthodoxy, namely the efficient markets hypothesis, or EMH, and the capital asset pricing model, or CAPM (Bezemer, 2009)[1].

The three differed starkly in their coverage of economists who had, apparently 'got it right'. Krugman (2009) did little more than acknowledge without naming 'a few economists [who] challenged the assumption of rational behaviour, questioned the belief that financial markets can be trusted and pointed to the long history of financial crises', before reprising some of Keynes' well known strictures on financial markets, and, following Robert J. Shiller, anticipating a future synthesis of insights from behavioural economics and finance and those of the 'saltwater' or 'New Keynesian' group (Krugman, 2009; Shiller, 2003; Galbraith, 2009). Galbraith and Bezemer pointedly focused on those 'few economists', if not exhaustively. Taken together, the works cited are concerned with *ex ante* or leading indicators of financial instability and crisis, qualitative models of macro and micro processes culminating in financial crisis, and quantitative - 'flow of funds' or accounting - models of capitalist economies. Baker (2002) diagnosed a bubble in U.S housing markets on the basis of divergence of indicators from historic norms; that such divergences of house price and rental cost index inflation ratios, rental vacancy rates, and homeowner equity to value ratios could not be attributed to changes in such fundamental factors as demographic changes, or nominal and real interest rates (on the basis of their historic effect sizes) was taken to imply speculative overvaluation, liable to result in economic recession and financial crisis. For Galbraith (2009), such 'bubble detection' practices had the virtue of working 'much of the time' but Baker had not accounted theoretically for the stability - or not - of historic norms. Similarly, Borio and Lowe (2003) constructed three *ex ante* indicators - 'credit gaps', 'asset price gaps' (equity prices due to unavailability of a suitable home price dataset), and 'investment gaps', for credit growth, asset price inflation, and

1 Krugman (2009) offered a somewhat stylized depiction of the academic and policy concensus, but one echoed elsewhere. Leung's (2004) characterisation was that mainstream macroeconomics had largely ignored housing, whilst housing and urban or spatial economics had largely ignored the macroeconomy in turn (Leung, 2004 : 3). A section on 'Macro policy issues' in Muellbauer's (2008) survey included just a handful of papers also cited in Allen and Gale's (2007) review of the 'financial crisis literature' (Allen & Gale, 2007; Muellbauer, 2008). In fact, certain of these authors had contributed papers to a conference cosponsored by the Federal Reserve Bank of Chicago and the World Bank Group in Washington DC, "Asset Price Bubbles : Implications for Monetary, Regulatory, and International Policies", in April 2002. True to form, the focus of the conference was monetary policy, particularly credit growth regulation, loan loss provisioning, and monetary and financial stability, rather than housing or even fiscal policy, and featured several equilibrium theoretic papers notwithstanding a 'note' that such models 'give no support to proposals urging policymakers to respond to asset price changes' (Hunter, Kaufman & Pomerleano (eds), 2003 : xiv). That said, Herring & Wachter (2003) and Borio & Lowe (2003) urged caution, as did keynote speaker, Robert J. Shiller, one of Krugman's dissenting voices. Similarly, both the IMF and OECD warned publicly of overvaluations in OECD housing markets in the middle part of the last decade, as well as publishing the Panglossian assessments cited by Bezemer (2009).

capital accumulation - all based on deviation from trend by specified amounts - and tested their ability solely and in combination to predict actual financial crises in a sample of 34 countries between 1960 and 1999, within 1, 2, and 3 years, using different threshold values for each indicator series (Borio and Lowe, 2003 : 250-256). They found that the 'credit gap' did so, in particular, before considering factors giving rise to financial vulnerability during periods of low inflation; the nature of financial imbalances, vulnerability or crisis was not specifically elaborated (Borio and Lowe, 2003).

There are qualitative models of financial crisis in the historical and institutional traditions of economics. Galbraith (2009) cited his father's *The New Industrial State,* William K Black's *The Best Way To Rob A Bank Is To Own One*, Gary Dymski's ethnographic study of local sub-prime mortgage markets, and his own *The Predator State* as exemplars of studies showing how market processes could not compensate for failures of internal governance (see Galbraith, 2009). The first (1978) edition of C.P. Kindleberger's Manias, Panics, and Crashes was a (qualitative) comparative historical investigation of cycles of mania, crash, and panic from the South Sea and Mississippi Bubbles of 1719-20 through to the US stock market crash of 1973-4, which Hyman Minsky called 'the classic description ... of self-sustaining disequilibriating processes [in the economic system]' (Minsky, 1992 : 1). By its fifth and sixth editions, Kindleberger and Aliber (2011) offered the stylized model of financial crisis - which could be applied to both *sui generis* and concurrent crises, and causal sequences of crisis in evidence around the world since the end of the Bretton Woods System - developed by Hyman Minsky himself, in *Stabilizing an Unstable Economy* and 'The Financial Instability Hypothesis'. Minsky (1992) described the hypothesis as 'an interpretation of the substance of Keynes' "General Theory" (Minsky, 1992 : 1), rejecting the mainstream characterisation of capitalist economic systems as self-equilibrating and self-sustaining, and, in contrast to the quantity theory of money, highlighting the significance of income-debt relations for governments, financial and non-financial corporations, and households alike (Minsky, 1992). A first theorem posited 'financing regimes', characterised by a preponderance of types of income debt relations in the economy : namely, 'hedge' finance (in which principal and interest payments could be met from current cash flows); 'speculative' finance (in which only interest payments could be met, thus requiring periodic rolling over of principal); and 'Ponzi' finance (in which commitments could not be met except through asset sales or further borrowing) (Minsky, 1992). A second was that over time, during periods of prosperity, a shift in these relations (from the former to the latter) would arise through internal dynamics that gave rise to financial instability; thus regulation or intervention was required 'to keep [relations] within reasonable bounds' (Minsky, 1992). One of Bezemer's twelve prognosticators, Robert J. Shiller addressed such shifts in relations in his celebrated (2000) study of the stock market, finding that the nature of contemporary and other asset markets was speculative (not in Minsky's specific sense) and did not confirm the efficient markets hypothesis or other attempts to 'rationalize' historic valuations, though '[he] [also] write[s] papers that rely on perfect rationality' (Shiller, 2003). His model distinguished 'precipitating factors' and 'amplification mechanisms', feedback mechanisms rooted in 'human psychology', and working in both positive and negative directions :

> initial price increases beget more price increases .... price increases attract investor interest and demand, and the new demand begets more price increases. We can find ourselves in a vicious circle, whereby prices accelerate upward. The price increase cannot go on forever, and eventually the halting of price increases disrupts the investor motivation for holding the highly priced stocks. At that point, the price increase may be sharply reversed, the bubble is burst, and there can be downward feedback, leading to lower and lower prices (Shiller, 2003 : 38).

Another, Fred Harrison, attributed instability in housing markets to speculation in land markets and regular, long cycles of price action (Bezemer, 2009). For Harrison, Mason Gaffney, Michael Hudson, the late Robert Andelson, and others working in the tradition of Georgist political economy, the 'root causes' of such speculation are to be found in fiscal policy and historic shifts in tax structures away from the economic rent accruing to private owners of land and natural resources (Harrison, 2008; see also Gaffney, 2009; Andelson, 2000; Stilwell, 2004; Stilwell & Jordan, 2004).

Bezemer (2009) inspected his sample of publications for common elements of a 'valid analytical approach to financial stability'[2] (Bezemer, 2009 : ?). In several (post-Keynesian) sources, these were associated with an ' "accounting" or "flow-of-funds" view of the economy', which informed a number of quantitative models of the economy whose accounting identities and behavioural equations featured explicit financial flow (e.g net lending) and stock variables (e.g. financial assets, liabilities) describing transactions between separately defined foreign, government, household, and, both non-financial and financial corporate sectors (Bezemer, 2009 : 12). Such models are constructed on the basis

2 Galbraith (2009) included the Marxian tradition in his survey, reciting Patrick Bond's summary of two types of 'crisis-is-inevitable' argument in the literature, but arguing neither provided a theory specifically of financial crisis (Galbraith, 2009 : 89). No Marxian analyst featured in Bezemer's sample; he made only passing mention of the description of financialisation in Giovanni Arrighi's *Adam Smith in Beijing* (Bezemer, 2009 : 16).

that 'economic relations and transactions in modern economies are embedded in the double-entry accounting framework', or 'everything comes from somewhere and goes somewhere' (Bezemer, 1999 : 33; Godley, 1999 : 13). The accounting structure of such 'stock-flow consistent' or SFC models is typically laid out in matrices, but represents a standard Keynesian model of income determination 'except that careful track is kept of stock variables, which not only enter the expenditure function but generate flows of interest payments by the government as well as flows of factor income across the exchanges' (Godley, 1999 : 13). Godley (1999) could thus simulate the improbable rise in net lending and private (household) indebtedness implied by CBO projections for the Federal Budget, given concensus forecasts for net exports; private expenditure would likely revert to a 'normal relationship' with disposable income (Godley, 1999). Following Minsky, Keen has characterised capitalist economies as monetary systems with 'creative and destructive instabilities', the latter 'emanat[ing] overwhelmingly from the financial sector' (Keen, 2012). Properly regulated, credit flows are used to finance investment, resulting in productivity improvements, and a sustainable growth path for the economy, at a stable debt to GDP ratio; in the absence of such regulation or intervention, credit flows are increasingly used to finance asset purchases rather than real investment, initiating a positive feedback loop between asset price inflation and credit acceleration that is the 'basis of capitalism’s tendency to experience financial crises' (Keen, 2012). Asset price inflation continues so long as credit acceleration does so, which, in the case of real estate, with a relatively low rate of turnover, may be for extended periods of time. Based on the financial instability hypothesis and insights from complexity theory, Keen's monetary models, like SFC models, characterise, specify and allow for the projection of financial imbalances and moments of crisis, as Bezemer (2009) summarised :

> A benchmark scenario of financially sustainable growth is when the economy expands with constant fractions of its credit flows going to the financial and real sectors. Debt burdens do not grow as a proportion of the real economy and therefore remain serviceable, and the FIRE [finance, insurance, real estate] sector cannot have a bad loan problem. Conversely, debt growth is the central factor in undermining the financial sustainability of economic growth ....... [Policymakers should impose]
> regulations in the economic system on what sorts of balance sheets are ... allowed .... [and] co-determine what forms new credit flows can take, how much there can be of it to different sectors (e.g. to the FIRE sector versus the real economy), and consequently how the economy will evolve (Bezemer, 2009 : 15).

## RECOMMODIFICATION AND FINANCIAL INSTABILITY

A starting point for theorising the relationship between the recommodification of housing systems and the financial stability of economies is provided by recent contributions to comparative and international political economy (CPE/IPE), at the intersection of the varieties of capitalism (VOC) and comparative welfare states, comparative housing and housing studies literatures. A housing system describes the governance of production, distribution, and consumption of housing in a country. Housing policy concerns the nature of state intervention - at all levels of government - within the housing system. Though diffuse, including a 'bewildering array of fiscal, monetary and other policies', it may be regarded as social policy (Lowe, 2011; Wilensky, 1975). In each system, a distinctive institutional structure has evolved, mediating flows and stocks of households (and their changing needs) and dwellings. The relations between households, other institutions and dwellings are defined under systems of tenure, taking one of many forms of two main types, owning, and renting, each being subject to specific rights and responsibilities (Ruonavaara, 1993). A distinctive housing finance system - a sub-system of the housing (and financial) system - provides for its financial requirements. Housing systems have been classified in a number of ways, typically on the basis of prevailing types and forms of tenure. Dual rental systems (e.g. the owner occupation oriented countries of the Anglosphere) and unitary rental systems (e.g. continental European states) have been distinguished (Lowe, 2004; Balchin, 1996; Norris, 2009); Schwarz and Seabrooke (2008) have proposed a fourfold categorisation of varieties of residential capitalism, or VRC, on the basis of the institutional complementarities and the political effects of housing finance systems. Such categorisations may conceal significant differences in institutional configurations, with no necessary correspondence between market and non-market based processes in production, distribution, and consumption (Fung & Forrest, 2011; Malpass, 2004; Doling, 1999; Barlow & Duncan, 1994). (Comparative) evaluations of housing systems have focused on housing inputs (e.g. government spending, policy settings) and outputs (e.g. tenure structure) but include outcomes (e.g. quality and condition of housing stock, rates of vacancy and occupation, nature of occupation, affordability) (Norris, 2009).

The recommodification of housing has been considered part of welfare state restructuring (Doling, 1999; Lund, 2008; Malpass, 2004; Mullins & Murie, 2006; Balchin & Rhoden, 2002; Bramley, Munro & Pawson, 2004). Doling (1999), following Esping-Andersen, evaluates the British, German, and Swedish housing systems using a definition and index of de-commodification based on considerations of rights. Here, housing as the object of consumption is relatively more commodified or decommodified (rather than the consuming subject) to the extent that it is accessible (and may be retained) on the basis of social rights, and citizenship, rather than property rights or labour market position (Doling, 1999 : 157). Precursors and more recent contributors to the literature have taken what Doling calls a more comprehensive view of (re)commodification (Doling, 1999; Lund, 2008). Following Polanyi's notion of 'commodity fiction', commodification is characterised by Tranoy (2008) simply as 'reduc[ing] the value of something to its market (exchange) value, nothing more, nothing less'; recommodification of housing systems may therefore comprise simultaneously that of housing - both land and dwellings - and financial assets (Tranoy, 2008 : 6). Institutions have then been restructured to favour market and quasi-market mechanisms in relation to housing production, as well as distribution and consumption, and promoted discursively in accordance with the 'idealized vision' of perfectly competitive markets in the economic orthodoxy, and in neo-liberal and 'New Right' ideology : 'freed' from state intervention, the 'invisible hand' will, axiomatically, in housing as in any other market, coordinate the decentralised decisions of sovereign consumers and producers, continuously adjusting supply to demand, and delivering economic efficiency and even social equity (Fung & Forrest, 2011; Barlow & Duncan, 1994). The theme of restructuring, paraphrasing Schwartz & Seabrooke (2008) has been to 'make houses into assets', as reflected in changing inputs - e.g. privatisation of state assets and cooperative property rights, liberalisation and deregulation of housing finance systems, removal of price and rent controls - and changing outputs - e.g. increasing levels of owner-occupation and reduction of the social rented sector - though its form has varied in each case. In OECD countries, and beyond, housing has been conceived increasingly as a 'means to wealth', as well as, if not instead of, as a social right (Mortensen & Seabrooke, 2008). Recommodification has had consequences for politics, (macro)economic performance and stability, and the redistribution of wealth and risk (Schwartz & Seabrooke, 2008; Broome, 2008; Zavisca, 2008; Tranoy, 2008; Watson, 2008).

It is recommodification of housing systems in the comprehensive sense that is theoretically determinate for financial instability. Financial instability arises, as per the first and second theorems of the financial instability hypothesis, in the transition from 'hedge' to 'speculative' and 'Ponzi' 'financing regimes', in the economic system as a whole (Minsky, 1992). In most OECD housing systems, housing, a basic necessity, tends to be expensive in relation to households' current income. The market or exchange value of dwellings is a full capitalisation of an expected flow of rent or imputed rent in respect of both the services rendered by a building - a fixed asset subject to depreciation - and those by its site location - the (usually serviced) land it occupies. It is difficult for households to vary their consumption, and the flow of new dwellings in competition with the existing stock tends to be small by comparison to it (typically about 1% of its size), stocks moreover, whose spatial distribution reflects a historical rather than a current pattern of need (Lund, 2008; Bramley, Munro & Pawson, 2004). As buildings and land are more or less durable (and housing needs dependable), housing may be considered an investment in addition; expected capital gains may also be reflected in market capitalisations. Households (and other agents) may accumulate savings to finance home purchases or sell financial assets (debt as a commodity). Recommodified housing and housing finance systems may therefore be more liable to financial instability and crisis : with housing the largest item in household consumption expenditures (and with household consumption the largest component in National Income), and mortgage debt often the largest asset in the financial system (secured on real estate), a positive feedback loop may be instituted between asset (home) price inflation (inflating collateral valuations) and credit growth, accelerating as the 'Ponzi' financing regime is approached (Minsky, 1992; Keen, 2012; Hudson, 2006; Schwartz & Seabrooke, 2008). Inspection of real-estate related financial crisis in OECD economies should reveal the nature of recommodification and indicate whether destabilising behaviours are instigated endogenously, or precipitated by exogenous factors; the presence of a positive feedback mechanism between the issuance of credit and asset price inflation should be apparent; it may be possible to say whether there is a consecutive transition from 'hedge' to 'speculative' and 'Ponzi' financing regimes at the level of the economic system; and finally, similarities and differences in the nature of financial instability and crisis in each case may be observed.

**METHODOLOGY**

A methodological strategy is a solution to a problem : namely the aims or purposes of the researcher, given a view of the objects of study (Sayer, 1992). As described above, my aims are fourfold :

- explore the nature of recommodification and indicate whether destabilising behaviours are instigated endogenously, or precipitated by exogenous factors;

- indicate the presence of a positive feedback mechanism between the issuance of credit and asset price inflation;

- identify a consecutive transition from 'hedge' to 'speculative' and 'Ponzi' financing regimes at the level of the economic system;

- and finally, explore the nature of financial instability.

Following Sayer (1992), I take a realist view of the social world and causation within it : economic systems - and housing subsystems - are open and complex, with social agents and institutions liable to qualitative transformation, and subject to changing conditions. Recommodification and the scenario described in the financial instability hypothesis are complex, dynamic processes extending in time. I adopt a broad brush, qualitative, case oriented approach : the aim is to arrive at a first approximation in relation to these questions by constructing a cursory review of the postwar histories of three OECD economies from some of the secondary literature available and some simple, descriptive statistics, and by comparing the cases with Minsky's scenario. I am using the scenario as an ideal-type in the Weberian sense, as relayed by Seabrooke : ' "a purely limiting concept with which the real situation or action is compared and surveyed for the explication of certain of its significant components" ' (Seabrooke, 2006 : 3). The limitations arise, naturally, in seeking to cover so much, and so much time, in so little space : I do not, for example, take advantage of the approach's potential for interpreting concept-dependent objects or action. Instead, I try to explore the surface of a half century or more of change in three economic and housing systems - a '[search] for the "causes of effects" ' as Mahoney and Geertz put it (della Porta & Keating, 2008 : 204) - in 'unique and complex social configurations' (Hantrais, 2009).

My selection of cases - Ireland, Spain, and the United Kingdom - is non-random and positive (della Porta, 2008 : 216). All apparently conform to the ideal-typical scenario and are three of Reinhart and Rogoff's (2009) 'unhappy families', suffering real-estate related financial crises in recent years, with Spain's 1977-1982 crisis, one of 'the Big Five', and the United Kingdom by and by contributing three of the eighteen postwar financial crises in industrialised economies (prior to 2007) mentioned by the authors (Reinhart & Rogoff, 2009). The postwar period allows sufficient time for consideration of possible transitions between financing regimes. On first glance, the three European economies appear to have shared a 'materially similar international environment', at least in more recent times, which could be argued to control or limit extraneous variance (see Seabrooke, 2006 : 15; Hantrais, 2009 : 50). All three are members of the European Union, acceding to the European Economic Community in 1986 (Spain), and 1973 (Ireland, United Kingdom), and were party to the Exchange Rate Mechanism (ERM). Critically, Ireland and Spain have continued in the European Monetary System, and are now Eurozone countries, whilst the United Kingdom has remained a sovereign issuer of its own currency. On the other hand, in the first part of the postwar period, the Spanish state under the Francoist regime faced a somewhat different international context, not joining the United Nations before 1955. All three economies have undergone enormous structural changes but from very different starting points, with the Irish and Spanish economies both developing rapidly from predominantly agricultural bases in the period, and the United Kingdom deindustrialising en-route to a services based economy.

I use three main sources to compile quantitative indicators of housing recommodification and financial instability. The IMF prepares a Real GDP Index as part of its regular International Financial Statistics series. I use Real rather than Nominal GDP as a summary indicator of the economic performance of the three economies; the IMF data are each indexed to 2005=100[3]. The IMF's Financial Soundness Indicators are published separately of the International Financial Statistics and are a more recent innovation, comprising a 'Core Set', describing the status of deposit taking institutions (e.g. capital adequacy, asset quality, earnings & profitability, liquidity, sensitivity to market risk), and an 'Encouraged Set' with much broader scope. I have used the Household Debt to GDP ratio as a crude indicator of financial instability, and a basic (though not the sole) expression of debt-income relations in the economy : by far the greatest part of household debt is residential

3 I had sought to prepare a time series for the sectoral balances of the economies to indicate the changing contribution to output of the budget balance, trade balance, and private financial balance, but these are neither offered nor easily derived from the information available in either IMF or OECD databases, a reflection perhaps of their current non-mainstream status, if not my ignorance.

mortgage debt, and the series clearly indicate a growth and acceleration to a peak, before declining in the wake of crisis though the time series available is restricted to the last decade or so. The same series for the UK is strangely absent from the IMF database so is sourced here from a recent McKinsey Global Institute publication. I also use the ratio of residential mortgage debt to GDP, as published by the European Mortgage Federation (see Ball, 2010). Perhaps the key statistical source for European housing is 'Housing Statistics in the European Union' compiled for The Hague (Dol & Haffner, 2010). I have used this compendium as a basis for compiling figures illustrating population and household growth, dwelling stocks, and completions, and occupied dwelling stock by tenure, and transactions of existing dwellings, supplementing the data from a variety of sources where longer time series were available. The figures are - apart from population - to be regarded as indicative, with some variation in the concepts and data quality from country to country, and year to year. Household growth, for example, is in part determined by dwelling stocks, making comparisons of ratios of households to dwellings less tractable than on first view as households may be concealed. Last of all, I use a relatively new series of real home prices, again indexed to 2005-100, prepared by the Federal Reserve Bank of Dallas. The time series begins in 1975 and provides a basis for comparison between the countries here.

## RECOMMODIFICATION OF THE IRISH HOUSING SYSTEM

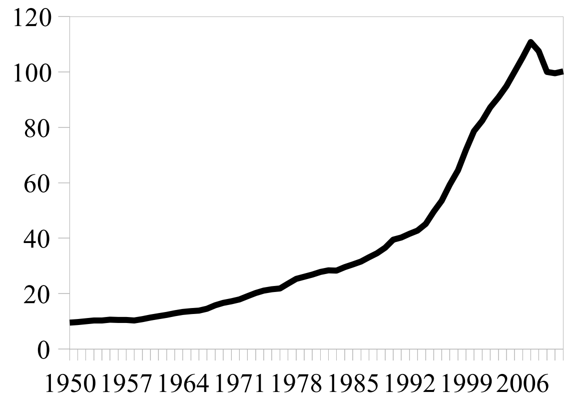
Notwithstanding a 'national predisposition' to owner occupation, born of nineteenth century struggles culminating in the Land Acts, just under half of the total dwelling stock was rented on the inception of the new republic, a majority in urban centres (McAllister, 1996 : 163). As shown in Figures 1 and 4, whilst real GDP grew very slowly, a much more rapid change took place in both housing provision, and the tenure structure, with the private sector quickly taking over from the government in providing the majority of new housing - 67% by 1975 (Drudy & Punch, 2005 : 19) - and owner occupation growing quickly at the expense of, at first, the private rental sector, and latterly the social rental sector. In decline since the 1960s, some 230,000 of 330,000 local authority housing units completed by 2005 were sold to tenants at discounted prices under a longstanding series of privatisation programmes (Drudy & Punch, 2005 : 19; Redmond & Norris, 2007). As in the UK, social housing would be residualised, and the planning system used to enlist the private sector in the building of 'affordable housing'. Low income purchasers were financed at first by local authorities and then by the Housing Finance Agency (HFA) established in 1981 to expand credit availability through debt issues, until the effective privatisation of this function (with state guarantees) in 1987 (McAllister, 1996 : 165). Building societies, after mortgage market restructuring and financial deregulation, now competed with banks for this additional business, as in the main market; the latter accounted for over a third of new mortgage lending by 1990 (Quinlan, 1995). Overall credit availability increased with the passing of the "queue" and effective mortgage rationing (McAllister, 1996). General fiscal support for owner occupation consisted in a mix of reliefs, allowances, and exemptions : there was no property taxation, no taxation of imputed rent or capital gains, and substantial mortgage interest tax relief - though it was periodically adjusted, upwards in the early 1980s, and down again toward the end of the decade (McAllister, 1996; Stevenson, 2012). Real home price growth - by the standards of what was to come - was not in evidence, even as National Output and Income began to increase.

If the Irish entered the decade starting in 1987 as the 'poorest of the rich', the economy that emerged from it was the so-called 'Celtic Tiger'. On the fiscal policy front, the new government reduced corporation tax to 10%, whilst cutting expenditure; Ireland was the beneficiary of a number of EU structural grants and implemented a number of regeneration schemes (Stevenson, 2012). A social partnership was brokered between the state, employers and the unions, aiming amongst other things, at wage moderation (Stevenson, 2012). Foreign direct investment accelerated, providing many transnational corporations, particularly U.S ones, with a manufacturing base and commercial headquarters in an English speaking country within the Single Market of the European Union. Moreover, membership of the Exchange Rate Mechanism (ERM), which Ireland had joined in 1979, famously breaking parity with Sterling, continued into full membership of the Euro, as of January 1, 1999. As its architects had intended, the yields on Irish and German 10-year government bonds converged from a spread of about 2% in 1989 to next to nothing by the turn of the century. Real interest rates fell to unprecedented lows : 3 month interbank rates and even mortgage rates were negative from 1995 to 2005. Real GDP grew some 80% between 1992 and 2000; unemployment fell to 4% by the same year (Stevenson, 2012; see Figure 1).

As Figure 5 indicates, real home price growth accompanied the 'Irish Economic Miracle'. Population grew due to natural change and as Ireland experienced sustained net immigration for the first time on account of employment growth (see Figure 2). This added particularly to the 25-44 age cohort, which increased as a proportion of total population to 30% in 2007 from a fifth in the mid-1990s (Stevenson, 2012). The influx, together with social changes including the legalisation of divorce in 1995 and a trend toward lower household size, increased the rate of household formation. Domestic and foreign financial institutions competed to finance home purchases as the construction industry slowly responded to increased demand; completions rose from 20,000 per annum during the 1970s and 1980s, to 30,000 in 1995, and 50,000 by 2000 (Stevenson, 2012). Real GDP growth slowed amidst the travails of the early 2000s, though remaining strong, averaging 4.2% from 2000 to 2006; real disposable income per capita grew at 2.76%; yet real home prices accelerated again (Stevenson, 2012; see Figure 5). The government continued to shift the tax structure from personal income taxes to VAT payable on new homes, stamp duty, and capital gains tax levied on buy-to-let investors (as previously, not on owner occupiers), which together provided in excess of 40% of gross revenues after 2003 (Stevenson, 2012). Financial liberalisation had continued apace. The volume of mortgage originations had more than doubled in the ten years from 1995 to 2005, but their value had increased sixfold (Stevenson, 2012). Credit availability increased as financial institutions increasingly funded operations from borrowing in the wholesale (money) markets. Teaser rates, interest-only mortgages, tracker products (linked to ECB rates), and longer term lengths were all introduced after 1997; the central bank relaxed restrictions on loan to value (LTV) ratios in 2001, enabling financial institutions to lend on the basis of monthly repayment amounts (rather than multiples of income); homebuyers, accustomed to, and expecting further price inflation, could choose from 254 mortgage products by 2009 (Stevenson, 2012). Buy to let mortgages were 20% of originations by mid-decade, whilst a majority of first time homebuyers' LTV ratios were in excess of 90% (Stevenson, 2012). A construction boom was set in train, with completions exceeding 90,000 units in 2006; residential investment peaked at 15% of National Income with construction providing more than 13% of total employment (Stevenson, 2012). As Stevenson (2012) notes, whilst prior to 2000, average home price growth had outstripped average loan growth, the position was reversed thereafter. Annual compound growth in bank balance sheets reached 20%, with 60% of loans property-related (residential, commercial, and development) by 2005 (Stevenson, 2012).

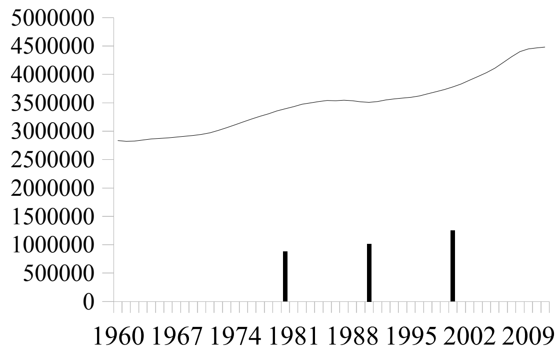
Both the public and private sectors' financial positions were therefore vulnerable to a slowdown in the housing market, which duly arrived in 2006. Prices fell in 2007, and 2008, falling sharply with transaction volumes, along with mortgage originations (down 24% and 34% respectively; see Figure 5). The market capitalisations of Bank of Ireland, AIB, and Allied Irish Bank each fell between 89% and 98%. The government guaranteed the liabilities of the six leading financial institutions in the autumn of 2008, before nationalising and recapitalising the distressed lenders (Stevenson, 2012; Ball, 2010). In April 2009, the National Asset Management Agency was established to take over troubled assets from participating institutions at an average discount of 60% of book value (Ball, 2012). The Irish Central Bank and the ECB provided short term funding as wholesale conditions deteriorated from 2007. Real GDP declined 7% in 2009, the year in which outstanding household debt peaked as a proportion of GDP (see Figure 6). Unemployment reached 13.7% in 2010, with a reduced labour force (Ball, 2010). The government posted a budget deficit of 11.3% of GDP in 2009. Home prices fell again, 18.5% in 2009, 10.8% in 2010, and 17% in 2011. Completions were 45% down from 2009. 5.7% of mortgages were more than 90 days in arrears by 2009 with 59,229 mortgage restructures in effect a year later (Ball, 2010). Behind the headlines, the waiting list for social housing increased from 56,000 in 2008 to 98,000 in 2011 (Stevenson, 2012).

**Figure 1 Real GDP Index (2005=100)**



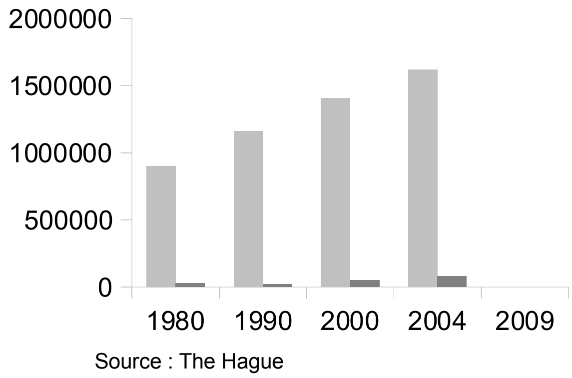

Source : IMF International Financial Statistics

**Figure 2 Population and Households**



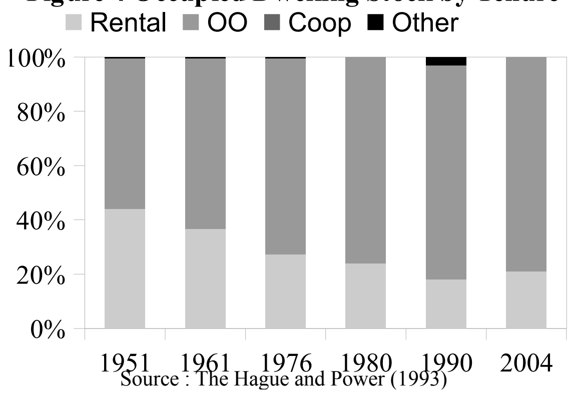

Source : Eurostat and The Hague

**Figure 3 Dwellings and Completions**



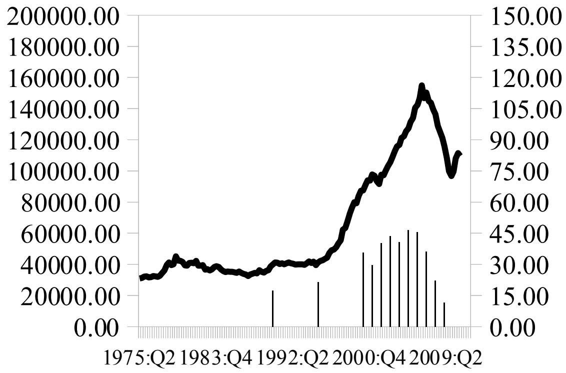

Source : The Hague

**Figure 4 Occupied Dwelling Stock by Tenure**



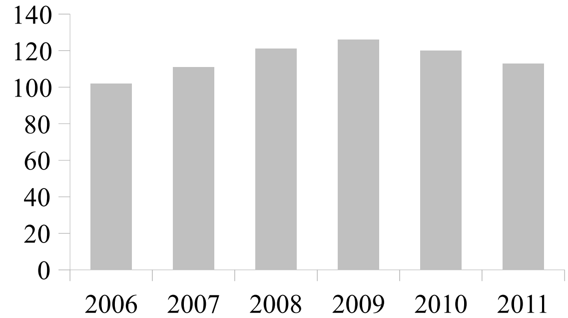

Source : The Hague and Power (1993)

**Figure 5 Real Home Price Index (2005=100) and Transactions of Existing Dwellings**




Source : Federal Reserve Bank of Dallas and The Hague

**Figure 6 Household Debt to GDP Ratio**




Source : IMF Financial Soundness Indicators

## RECOMMODIFICATION OF THE SPANISH HOUSING SYSTEM

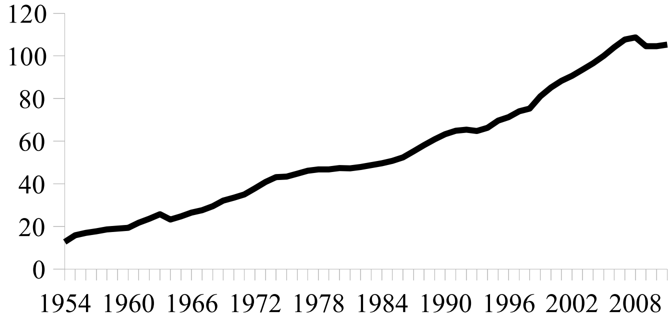
As Figure 7 shows, real GDP grew steadily under state directed industrialisation from the mid-1950s, before levelling off in a period now synonymous with the oil crises. Population increased, as people moved to urban areas to work in the nascent industries, and, with government encouragement, left a rental sector - still governed much as it had been at the conclusion of the Civil War - for owner occupation in increasing numbers (see Figure 11; Alberdi & Levenfeld, 1996). Owner occupation expanded quickly : from over 40% of occupied dwellings in 1960, the rental sector declined by about 10% with each passing decade, a decline which continued unabated until the new millennium. The 1964 *Ley de Arrendamientos Urbanos* (Law of Urban Leasing) introduced annual reviews of rents in line with retail price inflation on new leases but left indefinite tenancies and intra-family succession, a complex and protracted eviction process, and rent controls on existing contracts in place (Alberdi & Levenfeld, 1996). A supply of new rental accommodation was not forthcoming. By contrast, the various elements of what would be an enduring, favourable fiscal framework for owner occupation were introduced in the mid-1970s : VAT was reduced by 6% on the purchase of new homes (an *ad valorem* tax was paid on existing home purchases); home buyers could deduct 15% of mortgage repayments from their tax liability, up to a limit; and mortgage interest tax relief was also available, similarly up to a maximum (Alberdi & Levenfeld, 1996). The system of housing finance had been closely regulated by Banco de Espana which set quotas for lending, in the main, by the *Cajas de Ahorro*, or savings banks, at fixed interest rates on short, mostly 8-10 year terms; commercial banks specialised in short term finance, though lending was state directed (Alberdi & Levenfeld, 1996; Caruana, 2009).

The new 1978 constitution established autonomous regional governments which shared competences in housing policy with the state, particularly in planning (Alberdi & Levenfeld, 1996). The autonomous governments administered the new national VPO protected housing system by which state subsidised credit extended to private developers at 'agreement rates' by lenders could be transferred to purchasers on completion, or subrogated, for projects conforming to specified criteria and subject to price caps (Alberdi & Levenfeld, 1996). The VPO system, and a variant, VPP, developed by public sector agencies, together contributed over 50% of new housing construction between 1978 and 1986, and represented an effort to provide housing for owner occupation by low income groups on non-market terms (Alberdi & Levenfeld, 1996). A process of financial liberalisation was ongoing from the same time through to the mid-1980s : the system of quotas was abolished; in 1981, the *Ley de regulacion del Mercado Hipotecario* allowed loan to value ratios of up to 80%; indexed, variable interest rates were introduced a year later, enabling terms of 20-25 years; and market controls and restrictions on entry were relaxed (Alberdi & Levenfeld, 1996; Caruana, 2009). Fifty eight of now 107 private banks faced insolvency following rapid expansion of credit in the late 1970s; a Deposit Guarantee Fund, established in 1977, and the *Corporacion Bancaria*, established a year later (and merging with the DGF in 1980) administered and restructured 29 financial institutions; finally, in 1983, Rumasa, a shell company holding 20 banks and 300 non financial corporations had to be nationalised, the concluding act in a five-year financial crisis (Caruana, 2009). Real GDP growth stalled, and home prices declined as the government assumed costs estimated at 16% GDP in resolving the crisis (Reinhart & Rogoff, 2009 : 5).

A 1985 ruling removing rent controls and security of tenure increased the supply of rental accommodation, but did little to alter the cumulative decline of the tenure : the new arrangements accounted for about a third of tenancies by the end of the decade; under a fifth of occupied dwellings were rented, and, following the ongoing privatisation of such public rental stock as there was (tenants of 25 years standing or more were eligible under the scheme), the social sector now amounted to just 1% of main residences (Alberdi & Levenfeld, 1996). A new Law of Urban Leasing was approved in late 1994 and enacted 1 January 1995 liberalising rents, further weakening security of tenure (though tenants could exercise a right to extend leases to a term of five years if they so wished), and facilitating eviction for non-payment (Alberdi & Levenfeld, 1996). The building industry (and investors) did not respond by building for the private rental sector. As real GDP accelerated in the late 1980s, following entry to the EC in 1986, housing demand increased, increasing real home prices (see Figure 11). Privately developed (i.e non VPO/VPP) housing increased to meet demand, within the confines of local plans, pushing up urban land prices and making new VPO/VPP projects unviable at the existing caps; under the 1992 Housing Plan, maximum sale prices were increased and the transferable subsidies with them (Alberdi & Levenfeld, 1996). A 1994 law reduced the notarial and registration (and fiscal) costs associated with the transfer of mortgage loans between financial institutions and reduced repayment penalties (Alberdi & Levenfeld, 1996).

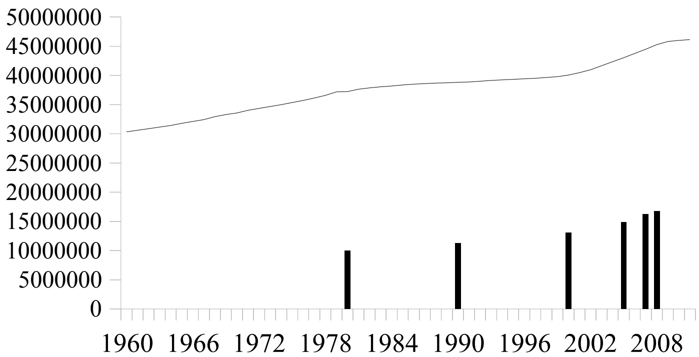
Economic growth accelerated from the mid-1990s (see Figure 7). Average mortgage interest rates declined from 15% to 10% in 1995, to 5% in 2000, and below 5% in 2005, following entry to the Euro in 2002 (Sureda-Gomila, 2009). The rapid acceleration in real home prices and credit availability ignited a construction boom as the private sector marketed developments to Spanish buyers seeking main and second residences and investments, and foreign buyers seeking holiday residences and investments (Sureda-Gomila, 2009). Completions climbed from approximately 300,000 units in 1998 to 400,000 in 2000, half a million in 2005, peaking in 2006/7 at more than 800,000 units. Five million homes were added to the dwelling stock between 2000 and 2008 (see Figure 9). Credit accelerated under the Banco de Espana's much vaunted dynamic provisioning regime, as financial institutions - domestic and foreign alike - revised collateral valuations, fuelling construction and home sales, and price rises. By Q3 2008, an average household needed to spend in excess of half of its income in mortgage repayments on an average priced home (Sureda-Gomila, 2009 : 156).The boom attracted 5 million immigrants in the 2000s; residential investment comprised 9.3% of GDP by 2006, with housing construction (a quarter of whose workers were foreign) contributing 13.5% of employment (Sureda-Gomila, 2009). Sales of the new units accelerated from 2004 to in excess of 400 000 by 2007, but never closed the gap. Foreign investment declined from 2005 and with financial institutions recoiling from the wholesale markets in the wake of the U.S subprime debacle, sales fell leaving a stock of unsold homes of 688,000 units, with a further 440,000 units in progress in 2009. Overall transaction volumes halved in the four years to 2008 with sales in the secondary market contracting particularly sharply (see Figure 11). Starts in 2009 were 83,000, 90% less than during the peak of the boom. A quarter of the financial sector's credit to households and non financial corporations related to real estate and construction, some 10% of which was non-performing (Sureda-Gomila, 2009). 2.57% of mortgage holders were in arrears by more than 90 days, as at July 2010, with 93 319 foreclosures in progress, and 9.97% of loans to the construction sector were troubled (Sureda-Gomila, 2009). The record bankruptcy of Mantinsa Fadesa in July 2008 was a prelude to the establishment of *Fondo de reestructuración ordenada bancaria* or Fund for Orderly Bank Restructuring (FOBR) in 2009, the Bankia controversy, and ongoing sovereign debt crisis.

**Figure 7 Real GDP Index (2005=100)**



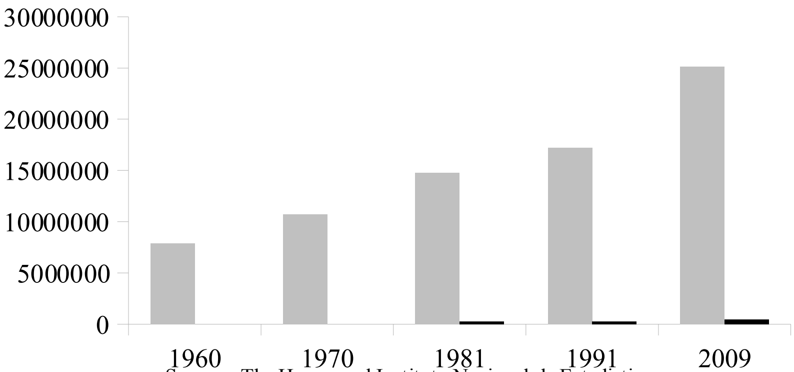

Source : IMF International Financial Statistics

**Figure 8 Population and Households**



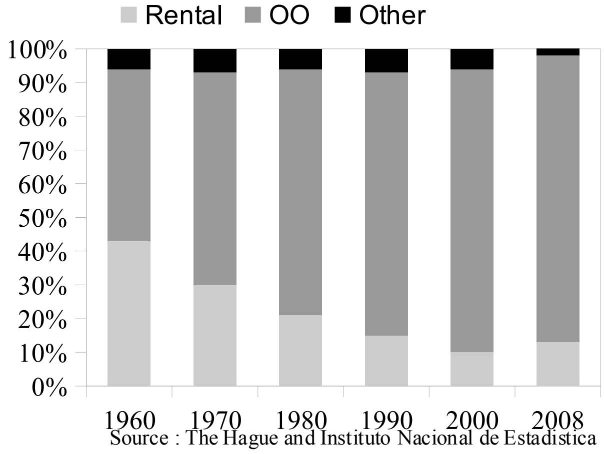

Source : Eurostat and The Hague

**Figure 9 Dwellings and Completions**



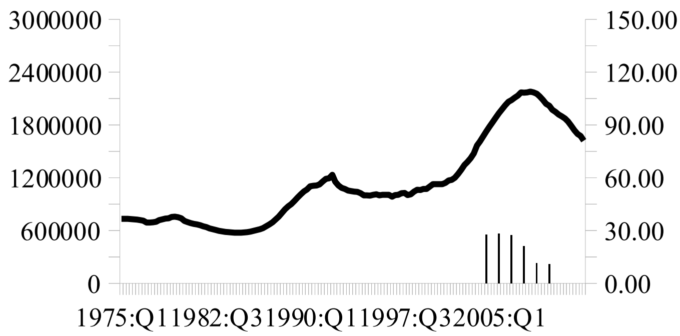

Source : The Hague and Instituto Nacional de Estadistica

**Figure 10 Occupied Dwelling Stock by Tenure**



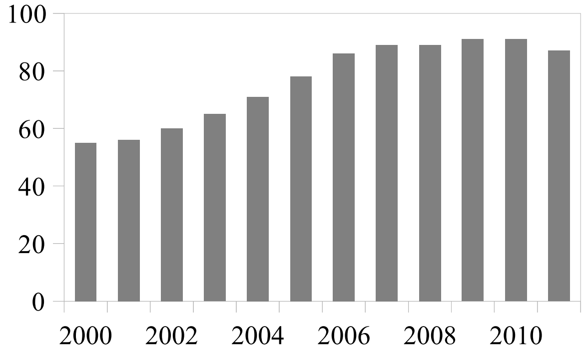

Source : The Hague and Instituto Nacional de Estadistica

**Figure 11 Real Home Price Index (2005=100)**
**and Transactions of Existing Dwellings**




Source : Federal Reserve Bank of Dallas and The Hague

**Figure 12 Household Debt to GDP Ratio**




Source : IMF Financial Soundness Indicators

## RECOMMODIFICATION OF THE BRITISH HOUSING SYSTEM

As the 1951 census showed, one of the legacies of war - with the cessation of building during the hostilities and widespread destruction - had been a chronic deficit of dwellings, exacerbated as household formation accelerated and mass immigration proceeded. "Squalor" was one of Beveridge's "five giants", and the postwar Labour government's construction of 1,017,000 dwellings and resumption of private construction for owner occupation under licence continued the interwar pattern of tenure restructuring, if progress was slower in the latter case (Lowe, 2011 : 86). The private rental sector continued its long term decline. Rents remained frozen at the levels set in September 1939 until the 1957 Rent Act decontrolled new tenancies and those of specified rateable values (rents were set at twice the gross rateable value and represented an increase of some 150%) (Lowe, 2011). The act also weakened security of tenure and succession rights, and protection against eviction : as home prices increased, landlords sold dwellings to would-be owner occupiers, which would account for 40% of the increase in owner occupation between 1938 and 1975 (see Figure 16), and remaining landlords sought to replace controlled tenancies, most notoriously in the Rachman scandal (Lowe, 2011 : 94).

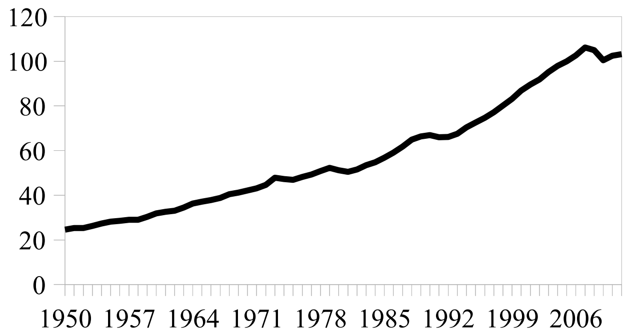
As Real GDP grew, owner occupation and local authority housing replaced the private rental sector (though less rapidly in urban areas before tenants were rehoused under slum clearance programmes). Fiscal support for owner occupation was increased. In 1963, Schedule 'A' taxation on imputed rental income was abolished, whilst owners were exempted from capital gains taxation on the transfer of principal dwellings, and enjoyed generous mortgage interest and home improvement tax relief (Lowe, 2011 : 100; Whitehead & Scanlon, 2010). The 1967 Housing Subsidies Act provided cheap local authority and building society 'Option' mortgages to low income homebuyers (Lowe, 2011 : 100). A series of housing acts in the 1960s (e.g. Housing Act 1961, 1964, 1969) reintroduced general needs subsidies for local authority housing, provided financing, in the establishment of the Housing Corporation, for the nascent housing associations (HAs), and introduced grants and subsidies for renovation, as housing quality increasingly began to be addressed (Lowe, 2011 : 90-99). The Labour Party's 'National Housing Plan' for half a million dwellings began to be implemented, with 213,900 starts in 1967, in the event, the peak year for total housing completions in the UK (447,100), before the government cut programmes in response to the Sterling crisis and devaluation (Lowe, 2011 : 98).

Real home prices and private residential construction for owner occupation were volatile in the 1970s (see Figure 17). Demographic changes and increasing real disposable incomes following income tax reductions increased housing demand before the oil and Sterling crises of the mid-1970s (Whitehead & Scanlon, 2010). Facing a run on the Pound, the government secured a record $3.9 bn loan from the IMF in 1976 to finance the balance of payments (and a loan from the U.S Treasury), agreeing to substantial cuts in government spending (National Archives, 2012). The programme of council house construction, which between 1969 and 1978 had averaged approximately 143,500 starts per annum, was cut back, whilst through the new Housing Investment Programme or HIP system, central government and HM Treasury assumed tighter control of (smaller) budget allocations (Balchin, 1996). Home prices and private construction recovered with the economy, as interest rates fell, only to fall again as the new Thatcher government embraced monetarism, and the economy entered recession. The 'rolling back of the state' in housing policy comprised reductions in new local authority construction, privatisation of local authority stock, and restructuring of the social sector, favouring construction and renovation by housing associations over local authorities, increased levels of rents in the sector, and deregulation of the private rented sector (Balchin, 1996). Between 1979 and 1993, total real public housing expenditure decreased by 60%, with starts in the social sector falling to between 25,000 and 50,000 per annum (Balchin, 1996 : 211 - 213). By mid-decade, renovation by the private and public sector exceeded completions, and, by 1992, Housing Corporation capital expenditure would overtake local authority investment (Balchin, 1992). Privatisation proceeded under the 1980 Housing Act (and the Tenants' Rights, Etc (Scotland) Act), under which council tenants could exercise a statutory Right to Buy (RTB) their freehold (or 125 year leasehold), and new legislation including the Housing Act of 1988, which provided for the renovation and disposal of housing estates by Housing Action Trusts to housing associations or private landlords, or by large-scale voluntary transfers (LSVTs) direct from local authorities (Balchin, 1996). RTB sales increased from 568 units in 1980 to 196,430 in 1982 before decelerating; successively more generous discounts from 1986 renewed demand with sales peaking in 1989 at 238,286 units, making over 1.5 million RTB sales by 1994; thirty two local authorities transferred the whole of their stock by the same time (Balchin, 1996 : 224-5). Council housing was reduced to 16.9% of the dwelling stock by 1998, from 24.4% in 1988, and about a third in the late seventies and early eighties (Balchin, 1996). The private rental sector was deregulated in successive legislation and revisions to the HIP system had the effect of raising rents across the social sector; by 1994, the government spent twice as much on housing benefit as it did on mortgage interest tax relief (Balchin, 1996 : 216).

Figure 17 clearly shows the acceleration and collapse of real home prices in the late 1980s; in fact, real prices nearly doubled between 1983 and 1989 (Malpass, 1996 : 465). Financial deregulation in the form of the 1986 Financial Services Act and Building Societies Act, and the 1987 Banking Act opened mortgage markets - long the preserve of the building societies - to commercial and foreign banks, whilst allowing financial institutions greater freedom over the composition of their funding (Watson, 2008; Whitehead & Scanlon, 2010). As interest rates fell after the early eighties, and with credit availability increased through the wholesale money markets and the introduction of securitisation, lending to homebuyers accelerated in volume, and leverage (100%+ LTV loans appeared) as banks and building societies - now starting to demutualise - competed for business : 90% of it funded transactions on the secondary market, whilst equity withdrawal funded strong consumption growth (Whitehead & Scanlon, 2010). Home prices rose quickly and easily outpaced increases in private sector construction, though it had boomed between 1986 and 1988. Interest rate rises - now closely followed by mortgage rate rises - designed to rein in double digit inflation precipitated a crisis of arrears and (re)possessions as home prices fell and the economy again entered recession (see Figures 13 and 17). A fifth of homebuyers suffered negative equity, including two thirds of those taking out 100% LTV mortgages (Gentle et al, 1994 : 191-2). At the same time, 145,800 households were officially recognised as homeless, with a further 80,000 single homeless adults (Balchin, 1996).

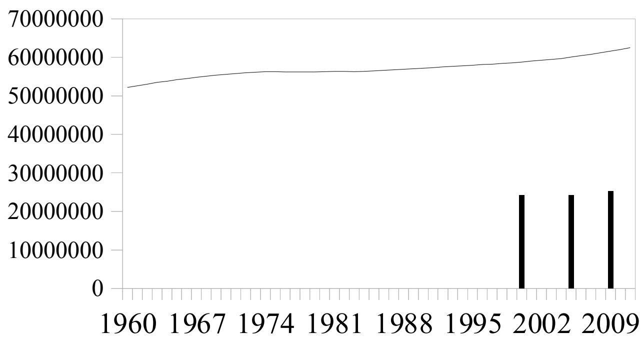
The economy grew strongly after the ejection of the Pound from the European Exchange Rate Mechanism and interest rates fell (see Figure 13). A regime of inflation targeting was introduced in the same year on the basis of RPIX, excluding mortgage interest payments, a practice which continued as responsibility was turned over to the Monetary Policy Committee of an independent Bank of England in 1997 (Watson, 2008). Home prices rose slowly from 1994, before again gathering momentum as housing completions, 165,000 in England in 1990, declined to approximately 130,000 in 2001; the tendencies of private housing supply not to respond to demand shocks would be investigated by the Barker Review in 2004 (Whitehead & Scanlon, 2010). Credit growth and real home prices accelerated as more building societies demutualised, and financial institutions sought market share. Mortgage interest tax relief was abolished but sales of primary residences continued to attract no capital taxation; HM Treasury under Gordon Brown's Chancellorship extolled the virtues of home ownership as part of an asset based welfare approach in a number of publications and the Labour Party publicised a stated policy goal of 70% owner occupation in 2005, though it had not increased since 2000 (Watson, 2008; Whitehead & Scanlon, 2010). After pausing in 2004, credit and home prices accelerated again : gross lending expanded 25% from 2005 to 2007, and was more than double what it had been in 2000; of total residential mortgage lending in 2007, nearly two fifths was remortgaging, a third loans for home purchase, and a quarter buy-to-let (BTL) loans; 46% of the £102bn total was accounted for by self-certification mortgages; 14% of home buyers ' LTV ratios exceeded 90%; and total residential mortgage debt grew from 55% GDP in 2001 to over 80% by 2007 (Whitehead & Scanlon, 2010). After sales of mortgage backed securities declined as the U.S crisis unfolded, Northern Rock (which had expanded its balance sheet threefold in seven years) became entirely reliant on wholesale funding, 69% of which was of short maturity (Whitehead & Scanlon, 2010). £1bn was withdrawn in a run on the banks' 56 branches as depositors became aware of the institution's position, and it was nationalised in February 2008. Average house prices fell by more than 11% in the year to January 2009, with sharp declines in gross new mortgage lending (30% year on year), and net lending (94.2%) as institutions and households began deleveraging; sales transactions halved (see Figure 17), with private housing starts nearly following suit (44%) (Whitehead & Scanlon, 2010). In the wake of the bankruptcy of Lehman Bros, a U.S investment bank, and the beginning of recession, eight of the ten leading mortgage lenders was party to either nationalisation - most notably RBS (83% public ownership) and LloydsTSB, which had taken over HBOS (40% shareholding) - or brokered acquisitions (Whitehead & Scanlon, 2010). By the third quarter of 2009, GDP was some 6.4% below its peak, whilst unemployment reached 7.8% by mid-2010 (Whitehead & Scanlon, 2010).

**Figure 13 Real GDP Index (2005=100)**



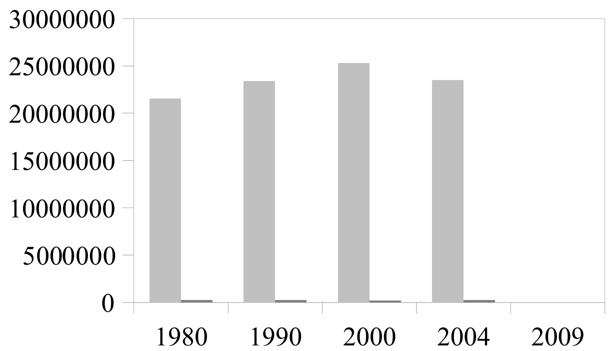

Source : IMF International Financial Statistics

**Figure 14 Population and Households**



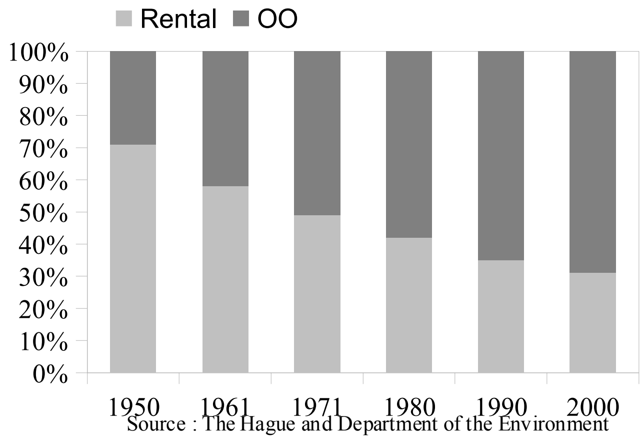

Source : Eurostat and The Hague

**Figure 15 Dwellings and Completions**



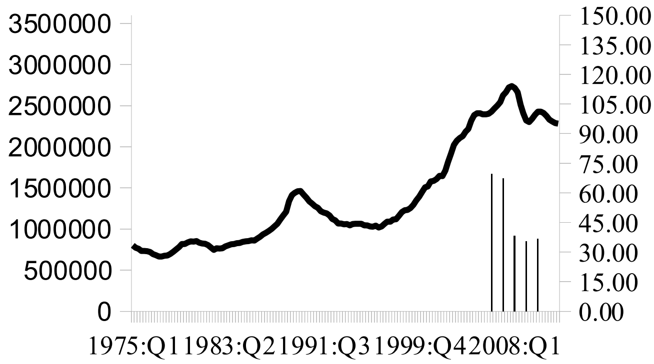

Source : The Hague

**Figure 16 Occupied Dwelling Stock by Tenure**



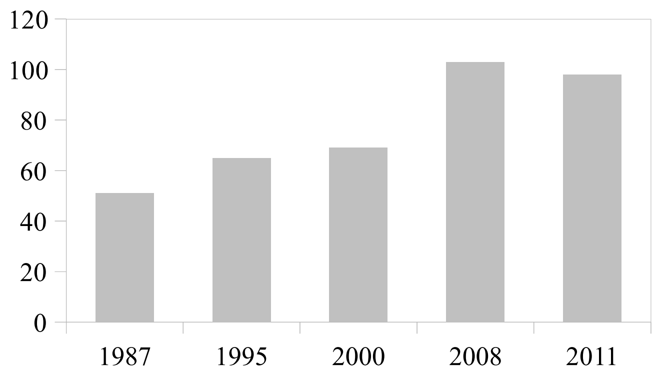

Source : The Hague and Department of the Environment

**Figure 17 Real Home Price Index (2005=100) and Transactions of Existing Dwellings**




Source : Federal Reserve Bank of Dallas and ONS

**Figure 18 Household Debt to GDP Ratio**



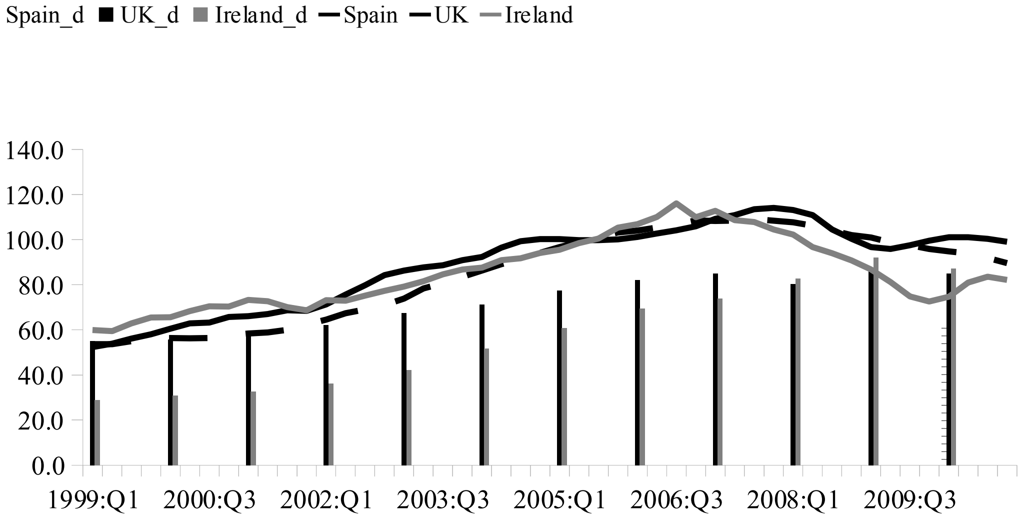

Source : McKinsey Global Institute

## DISCUSSION

There are striking similarities in the recommodification of housing in the three cases - not surprisingly perhaps in the case of the two English-speaking neighbours, but more so, across the three. Broadly, housing policy has promoted for-profit construction by the private housebuilding industry for owner occupation by high, medium, and low income households, and, from the late 1970s, the deregulation and privatisation of the housing finance system. In each country, a fiscal framework favouring owner occupation has been established - removing the taxation of imputed rent, and variously subsidising the payments of principal, interest, and renovation costs. In Ireland, capital gains taxation was latterly applied to buy-to-let sales but owner occupiers remained exempt; in the UK, mortgage interest tax relief was finally abolished but no capital gains taxation was levied on principal residences. In addition, each of the three countries legislated during the period to provide for low income owner occupation, from the British 'Option' mortgages to the 1978 VPO system in Spain, and the Irish HFA. Private rental sectors have been promoted through the removal of rent controls and other regulations in place at the beginning of the postwar period, but have in each case declined to a minority tenure. Social housing has been scaled back overall, with the substitution of housing association for local authority provision in the UK, and through ongoing programmes of privatisation, through subsidised sales to tenants, housing associations or other landlords. Whilst the sector has been residualised, rents have approached those in the private rental sector and have been funded through increasing (means tested) allowances or subject subsidies. Housing finance systems have been deregulated and privatised. In particular, mortgage market restructuring has replaced closed markets supplied by state subsidised specialist mortgage lenders, funded by prospective homebuyers' deposits, and mortgage repayments, with open markets in which domestic and foreign financial institutions may compete for business funded increasingly from wholesale money markets, including - though not to a great extent - through securitisation. Credit availability has increased, lending standards have been relaxed, and leverage has increased in all cases.

There are four real-estate related financial crises in the three cases : the 1978-1982 Spanish episode, and the three crises of the late 2000s. Each would seem to involve comparable destabilising behaviours by financial institutions, non-financial corporations, and households. In each, financial institutions increased the volume of their lending, and relaxed lending standards, both lending more to the same sorts of accounts, and lending to an increased range of accounts through a greater variety of products; at the same time, financial institutions, in the late 1980s and increasingly through the 1995-2005 period came to rely more and more on wholesale money market funding. Rapid balance sheet expansion enabled substantial profits to be booked, and increased capital market valuations, whilst home (and asset) price inflation caused collateral valuations to rise, providing for further lending. As for non-financial corporations, private sector house building in Ireland, Spain, and the United Kingdom has increasingly been dominated by the speculative building industry. Supply has tended to be pro-cyclical, with investment in land banks in market lulls, and releases for construction and sale during booms (see Ball, 1983; Whitehead & Scanlon, 2010). Both Spanish crises and the Irish case featured construction booms at the peak of a cycle and the development of a supply overhang. As sales slowed, and the value of inventory was marked down, companies could not meet commitments from current income, nor refinance their positions. In the UK, supply has been more constrained during boom periods, contributing to price growth in upswings and less oversupply in downturns. Last, in regard to households, it is possible to argue that, in exercising a Right-to-Buy, UK households voluntarily contributed to the net reduction of the social rented sector, and the expansion of (mortgage financed) owner occupation, certainly when compared to low income Spanish buyers, who had little choice but to house themselves under the VPO arrangements. For the most part though, households contributed as owner-occupiers, first time buyers, and BTL investors, willing to increase their indebtedness to secure an asset, on the assumption that price inflation would continue, delivering a capital gain, whether aggressively, in pursuit of gains, or defensively, not wishing to 'miss the boat'. In none of the cases would financial instability appear to be precipitated primarily by exogenous factors, which confirms the financial instability hypothesis. Taking perhaps two of the most widely discussed exogenous factors of the last forty years, in turn, it is apparent that the oil crises of the 1970s had a major impact on the business cycle and the housing market in the UK, precipitating housing recommodification perhaps, but not a real-estate related banking or building society crisis; similarly, the fact of increased credit availability due to world trade imbalances over the last decade is not determinate in and of itself, but merely presented financial institutions with opportunities which, for the most part, could be exploited under the existing regulatory regime. A less commodified housing system would have presented fewer or different opportunities.

**Figure 19 Real Home Price & Credit Growth**




Source : Federal Reserve Bank Dallas and EMF

Figure 19 provides some indication of the positive feedback between accelerating credit growth (here residential mortgage debt, rather than household debt, shown as a percentage of GDP) and real home prices (indexed, as before to 2005=100), between 1999, and 2010. In Ireland, the residential mortgage debt to GDP ratio increased from around 30% to just under 70% by the time prices started to falter. As GDP declined, the ratio rose to a peak of 92.1% in 2009. Credit growth in Spain over the period was very similar, the same ratio tracking the Irish one closely until 2004, and increasing at a slower rate thereafter to a peak of 64.4%, also in 2009, well into the downturn. The ratio for the UK started in 1999 at 55.1%, rising to a peak of 87.7% GDP in 2009. The nature of the economic risk posed by high levels of indebtedness is also illustrated here : as asset prices fall, and the economy contracts, debt rises as a proportion of GDP, becoming harder to service, causing financial positions to deteriorate ('hedge' positions are turned into 'speculative' ones, and 'speculative' ones in turn into 'Ponzi' positions, as any margins of safety are used up).

It is less easy to identify a passage of discrete financing regimes at the level of the economic system as a whole. The Spanish case should provide an example of the posited behavioural response to crisis : a period of somewhat conservative operation following a crisis aftermath, to be succeeded in due course by a 'speculative' regime as economic agents become accustomed to stability and develop more appetite for risk. A brief review of the 1978-1983 crisis suggests there was a rapid transition to unsustainable income debt relations within a few years of financial deregulation and the emergence of democracy.

Following the crisis aftermath, the fact that the rise and fall of real home prices in the late 1980s as real GDP rose and then stalled again did not result in a crisis comparable to the preceding one suggests that income debt relations had indeed not as yet made a transition to the 'Ponzi' stage (similarly, the contemporary arrears and possessions crisis in the United Kingdom caused no major failures). The apparent confidence in the dynamic provisioning regime, as the residential debt to GDP ratio doubled in under ten years now appears misguided and is perhaps suggestive of a shift in expectations of the sort that would accompany a transition from one financing regime to another. Stevenson's (2012) observation that average loan growth overtook average home price growth after 2000 similarly evokes a sense of transition to a 'Ponzi' stage.

That what matters is the preponderance of income debt relations in an economic system would account for the very different effects of comparable downturns in housing markets in the early 1990s and the late 2000s. In all three countries, from the late 1990s, a positive feedback mechanism promoted credit growth and home price inflation. In Ireland and Spain, construction booms were ignited which increased immigration and became a sizeable contributor to national output. Real estate loans including sizeable commercial and development components constituted as much as three fifths of financial system assets. The UK did not experience of construction boom of a comparable order - transactions in the secondary market were relatively more important - but residential mortgage debt to GDP ratio in the UK grew rapidly nonetheless from a higher starting point in 1999 to nearly 90% by 2009. There are evidently varieties of 'Ponzi' financing regimes.

**CONCLUSION**

In this dissertation, I have explored the nature of market-based restructuring, or recommodification of the housing system and its relationship to financial instability and crisis. I began by reviewing three important surveys of economics as starting points for a wider review of relevant contributions in the macroeconomics and housing, and financial crisis literatures. I focused particularly on qualitative and quantitative models of financial crisis, particularly Minsky's (1992) paper. I then reviewed narrow and comprehensive views of (re)commodification in housing, and the most relevant contributions to the VRC literature before developing a theoretical basis for how recommodification in the comprehensive sense, increases liability to financial instability and crisis. I suggested that the recommodification of the housing system includes that of land, dwellings, and debt, and that the particular properties of land and dwellings as a commodity provide the basis for financial instability : with housing the largest item in household consumption expenditures, and mortgage debt often the largest asset in the financial system (secured on real estate), a positive feedback loop may be instituted between asset (home) price inflation (inflating collateral valuations) and credit growth, accelerating as the 'Ponzi' financing regime is approached.

I used a qualitative, case oriented approach to explore recommodification empirically, constructing cursory histories of postwar restructuring in Ireland, Spain, and the United Kingdom from a small selection of secondary literature and simple, descriptive statistics. I compared the cases with the ideal-typical scenario described in the financial instability hypothesis to arrive at a first approximation in relation to four aims : to indicate whether destabilising behaviours are instigated endogenously, or precipitated by exogenous factors; to indicate the presence of a positive feedback mechanism between the issuance of credit and asset price inflation; and to both identify a transition between financing regimes at the level of the economic system, and explore the various nature of financial instability. Though necessarily limited, the study suggests recommodification of housing systems has increased the liability to financial instability and crisis in Ireland, Spain, and the United Kingdom, confirming the financial instability hypothesis inasmuch as destabilising behaviours do indeed arise endogenously (insofar as regulation allows it) and that it is income debt relations at the level of the economic system that matter. There is a strong indication of a positive feedback mechanism at work between credit growth and home price inflation. Last, whilst it is difficult to say anything precise about the respective transitions between financing regimes, it is clear that economic systems can become more or less financially stable and that financial instability may arise in a variety of ways.

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