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## **Neoliberalism and the Reproduction of Home Ownership**

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## **Abstract**

Housing markets were at the heart of the recent financial meltdown. Problems around subprime mortgages occasioned not only a general financial crisis but a more specific crisis for the future of home ownership. A substantial literature has emerged which focuses particularly on the financial architecture which grew up around residential property markets and which explores the causes and consequences of recent economic events. This paper takes a longer historical perspective and examines the development of home ownership in two mature housing markets, Japan and Britain, over the post war period. The paper highlights the way in which home ownership has been reproduced in these two societies in rather different ways but driven by similar underlying processes. In particular, the paper argues that the progressive financialisation of home ownership-the neoliberal solution to the affordability problem in housing-has undermined the social project of home ownership as a key element in the social cohesion of capitalist societies.

## **Introduction**

The recent global financial crisis pushed housing markets to the forefront of critical evaluations of contemporary capitalism. It has generated substantial academic commentary on, and analysis of, the causes and consequences of the sub prime crisis and its variants across the globe (See for example, Friedman, 2009; Stiglitz, 2009; Wade, 2009; Schwartz and Seabrooke, 2009). The discourse around housing markets in general, and home ownership in particular, is now framed with references to securitization, RMBs, SIVs, liquidity and investor subjects (see for example, Langley, 2006; 2008). It is the language of financialisation which is now at the core of much of the housing and related urban literature reflecting the transformation of mortgaged dwellings into more fully commodified, tradeable assets.

The study of the dynamics of housing markets and home ownership in particular has thus moved to centre stage of economic and political economy debate. This has generated creative and theoretically innovative analyses of the relationship between housing, the wider economy and the contours of neo-liberal capitalism. In doing so, it can be seen as part of a longer term shift of focus which has brought housing studies more fully into mainstream disciplinary discussion. As a specialist field, housing studies have been predominantly the preserve of specialists in housing policy, urban studies or urban economics. Previously, some commentators, most notably Kemeny (1991) have bemoaned the dislocation between housing studies and the mainstream disciplines

because of the consequent weak theoretical foundations for analysis and debate. The recent literature in this field has helped to address this dislocation by drawing analyses of the dynamics of the residential sphere into broader political economy debate. It could, of course, be equally argued that mainstream disciplines have neglected for too long the centrality of housing in social, political and economic life and in particular, the growing significance and transformation of individual home ownership in the evolution of contemporary capitalism.

The aim of this paper is to add to the current literature, which focuses in the main on recent economic events, through adding a longer historical perspective on the way in which home ownership has been promoted, presented and reproduced in the post war period. It does so by examining developments in two mature home ownership systems, namely those of Britain and Japan. The paper offers an account of the way in which the social and economic structures of home ownership have been shaped by these different modes in Japan and Britain and how the shift to the financialised/liberal mode represents a common crisis in the reproduction of home ownership in both societies.

In both Japan and Britain, home ownership has been a centerpiece of the post war social contract and the spread of middle class lifestyles. The Japanese Dream and the British Property Owning Democracy have in the past contained similar ingredients of stability, security and belonging, albeit with significant economic, institutional and cultural variations. In both societies, the promotion of home ownership has been the central objective of housing policy for several decades. In trying to achieve this goal, however,

rather different routes have been taken but both societies now face a common challenge of how to sustain the promise of home ownership in circumstances where the foundations of the home ownership ideology have been severely undermined. Moreover, this is a pervasive problem as many societies now face falling rates of home ownership among younger households, reversing a post war trend of increasing recruitment over the generations. Is this trend a reflection of a structural crisis or a temporary blip before we get back to business as usual? If not, what is the future for home ownership and what are the implications for social stratification and social inequalities?

### **Reproducing Home Ownership**

What is home ownership? This might seem a curious question but recent economic events and subsequent analyses have made it evident that it is essentially an economic relationship and transaction. However, for much of the post war period, this was not how it was perceived and presented in many societies. It was work from a Marxist political economy perspective, emerging in the early 1970s (see for example, Boddy, 1973; Lamarche, 1976; Merrett, 1982; 1988) that offered a demystification of housing tenures, arguing that housing analysts had generally treated them erroneously as merely distributional consumption categories -renters, public renters, private renters. Housing analysis, and particularly work on housing finance had concentrated on aspects of consumption and exchange and in doing so had neglected the essential link between production and consumption in understanding the role of housing tenure under capitalism. From this perspective, the role of housing tenure was rooted in the circulation of capital.

Dwellings were expensive commodities to produce and tenure categories (mortgaged home ownership, rentier capital, state rental) were devices which mediated between the producers and the consumers and which enabled the more efficient rotation of capital and thus speeded up the realization of capital investment in the housing sphere. Without these mechanisms, capitalists would not produce sufficient housing and homelessness would be endemic and/or there would be unacceptable levels of overcrowding and politically unacceptable housing conditions. What is now generally referred to as the 'affordability' problem is precisely about this relationship between the costs of housing production and the ability to provide widespread access to that housing.

In the pre home ownership era, private landlords were the key mediating institutions. With the rapid urbanization of the late 19<sup>th</sup> and early 20<sup>th</sup> centuries, they often proved unable to provide sufficient housing of sufficient quality. With the ascendance of home ownership and forms of non profit rental housing in the post war period, decommodified rental systems and mortgaged purchase became the main mediating mechanisms. And as commodification in housing gathered pace, and non profit rental systems came under increasing economic and ideological pressure, new ways to extend and reproduce home ownership were developed-finding their most fully developed expression in the financial innovations of the last decade or so. This tension between the cost of housing and the political and strategic necessity to provide adequate housing has always been at the core of the housing problem.

Of course, and critically, whilst mortgaged home ownership may be essentially an

economic relationship, there is much more to home ownership than its economic dimensions. It has a substantial, pervasive and powerful ideological baggage (Ronald, 2008). The recent sub prime crisis and the growing significance of residential housing markets in macro economies, and in the global economy, may have accentuated the monetary (and wealth) aspects of the tenure. But the economic and social dimensions of home ownership are inextricably related. Indeed, in the general literature on home ownership, it has been the social and political features of home ownership which have been most prominent. The promotion of home ownership was believed, and clearly stated by many politicians and academic analysts, to encourage social stability, social responsibility, political conservatism and a stronger sense of territorial attachment (see for example, Rossi, 1955). Home ownership was presented as essentially a social project (see the useful discussion of theoretical debates around this in Merrett with Gray, 1982, Chapter 15). This social project took different forms and was rooted in different political and social histories. For example, many of the UK building societies which had grown to become substantial financial institutions by the 1980s had their origins as working class, self help savings organizations. Their charitable status reflected these origins and the special nature of housing. Similarly, Japan's GHLC (Government Housing Loan Corporation) whilst more explicitly enmeshed in the broader project of post war reconstruction and the developmentalist orientation of the Japanese state, represented a core element of social reconstruction and the maintenance of traditional and stable family relations.

Famously, Harold Bellman, a former President of the UK building societies referred to

home ownership as a 'bulwark against Bolshevism and all that it stands for' (Bellman, 1928). Similarly, Lee Kuan Yew saw the state promotion of home ownership in Singapore as central to the task of building a nation (Lee, 2000). In a related vein but from a different political vantage point, some analysts were concerned that homeowners would be more concerned about paying their mortgages, mowing the lawn or languishing in their personal owned domains rather than building barricades to demand social change (Saunders, 1990; Merrett with Gray, 1982). Most of these assumptions have been heavily critiqued and many shown to be empirically flawed (see, for example, Winter, 1995). The point, however, is that until relatively recently the financial aspects of home ownership tended to be background rather than foreground. The investment orientation of home owners was certainly acknowledged (Saunders, 1990) but there was more intellectual debate around ideas of home ownership as a natural and normal desire-the desire to have a place of one's own, somewhere secure and stable-a key element of what Lasch (1995) referred to as a 'haven in a heartless world'. If the financial dimensions were mentioned it was more about saving than spending, as has remained the case in Japan. Home ownership was a store of wealth, rather than a source of additional spending power.

The exceptional nature of housing as a commodity was reflected in the fact that in many European societies, finance for home purchase was generally accessed via separate privileged and protected circuits dependent on retail savings. But neo-liberal ideologies have progressively engulfed these home ownership focused financial institutions and in doing so have eroded the special status of housing. As Hannsgen (2007) observes, by the early 21<sup>st</sup> century the relationship between homeowners, prospective homeowners and the

institutions which lent them mortgages had changed substantially.

“A once sleepy industry, directed towards a social purpose, had given way to an industry in which profit, as opposed to home ownership and security, became important. Savings and loans shifted their attention away from making profits by supporting home ownership and toward profit-making as such” (p.11).

Schwartz and Seabrooke (2009) make a similar point contrasting the essentially ‘inert, immobile and illiquid’ nature of homes in the Bretton Wood period with their transformation into ‘live, cashable and liquid’ assets in the neoliberal period. (p.210). But this transformation has not been limited to what Schwartz and Seabrooke refer to as liberal housing finance systems. The ‘depoliticisation’ of home ownership and the retreat by governments and other non-market providers in its direct or indirect promotion has been more pervasive. The purchase of housing has come closer to the purchase of other commodities. The main difference is that the level of credit required to purchase a house is on a rather larger scale than that required for other expensive but widely consumed commodities such as cars.

Thus, the ideology of home ownership has always been a shifting mix of economic, social and political objectives, and has involved different institutions, with the balance varying between different societies and over time within societies. Home ownership as a generic label, is constituted by a temporal layering of different modes of its reproduction. These different modes have involved different types of properties, different segments of

the population and different institutions.

### **Modes of reproduction**

In both Britain and Japan, as well as in many other developed countries, neo-liberalism has been pervasive and even normative in reshaping housing policies and housing markets, leading to changes in the mode of reproducing home ownership. Governments in the two countries have retreated from housing subsidy schemes while moving sharply towards accentuating the role of the market in providing and financing housing. However, the global diffusion of neo-liberal prescriptions has not meant the eradication of local modes relating to housing and home ownership. The employment of neo-liberal policy has been mediated by the indigenous social, economic, political and institutional contexts of particular countries, producing divergent effects on housing transformations (Forrest and Hirayama, 2009).

Before the neo-liberal era, state-guided housing systems in both Britain and Japan drove the expansion of owner-occupation, which was linked with broader social goals such as improving living standards, enhancing family security and encouraging social integration. This was underpinned by high-speed economic development and an associated augmentation in middle classes. However, the way in which the government promoted home ownership differed between the two countries. A *regulated-market mode* relating to property ownership developed in Britain while a *state-led mode* of facilitating owner-occupation was dominant in Japan.

Postwar Britain constructed a welfare state, where the government expanded both the owner-occupied housing sector and the social rented housing sector as the two pillars of the housing system. Providing public rented housing was the main instrument to address housing difficulties experienced by the working class, representing Britain's postwar collective approach to welfare. In the 1950s and the 1960s, the mass construction of council housing served to provide many households with adequate places to live. While council housing was supplied directly by the public sector, the acquisition of owner-occupied housing was facilitated by the introduction of indirect measures such as mortgage interest tax relief. By the 1960s, with an increase in house prices and mortgaged housing, and with lowered tax thresholds, mortgage interest tax relief became an important means to enable increasing numbers of middle-class groups to enter home ownership (Mullins and Murie, 2006). Moreover, there was substantial conversion of private rented properties into owner-occupied dwellings and the government launched some low-cost home ownership schemes to supplement the system of expanding home ownership.

Essentially, the combination of council housing and tax related indirect measures created a regulating effect on the housing market, playing a significant role in stabilizing postwar British housing conditions. In terms of the politics of housing, the Conservative governments favoured individual home ownership while the Labour government placed greater importance on the provision of public rented housing. However, there was a considerable consensus with regard to the importance of the role played by the two pillars

in implementing British housing policy. As a consequence, by the early 1970s, the levels of public rented housing and owner-occupied housing rose to approximately 30% and 50%, respectively. The growth of home ownership via indirect subsidies to the market as well as the transfer of private rental properties was, however, going to slow down unless new ways to extend and reproduce the tenure were found. Despite the introduction and extension of indirect subsidies and low cost schemes, the 1970s saw only a modest increase in the level of home ownership. To change this situation, home ownership and council housing were on a collision course. This was explicitly recognized by the UK's first postwar Labour government. In its first Housing White Paper it refers to a decrease in building council housing once pressing social problems have been met. It captures the essence of the social project when it states "The expansion of building for owner-occupation on the other hand is normal: it reflects a long term social advance which should gradually pervade every region" (quoted in Merrett with Gray, 1978,p.36).

The state of postwar Japan was characterized by its developmental policy, where the promotion of home ownership was regarded as a key instrument to accelerate economic development but also strengthen social cohesiveness (Hirayama, 2007, Oizumi, 2007). The Liberal Democratic Party (LDP), a party of establishment conservatives, held power almost exclusively since it was founded in 1955 until 2009, when it lost national elections, and took the initiative in promulgating residential property ownership. The system of facilitating owner-occupation was more explicitly state-guided in Japan than in Britain. The Government Housing loan Corporation (GHLC), established in 1951 as a state agency, provided increasing numbers of middle-class households with low-interest

mortgages to acquire or construct their own homes. After the oil crisis in 1973, the government further geared housing policy towards the mass construction of owner-occupied housing in order to stimulate the economy, and put more stress on encouraging people to access home ownership with a mortgage provided by the GHLC. In addition, major corporations provided low-interest housing loans to employees, supplementing the home-ownership-oriented housing system (Sato, 2007). The government supported corporate-based welfare with regulatory measures and tax incentives. Unlike Britain, however, where the level of home ownership increased unevenly but consistently, it actually fell in Japan from the 1950s to the 1960s, and thereafter remained relatively stationary at around 60 per cent. Although high-speed urbanization is generally accompanied by an increase in rental housing, the ratio of owner-occupied housing was maintained at a certain level by means of the mass provision of GHLC loans aimed at encouraging housing acquisition.

The developmental state of Japan differed substantially from the British welfare state with regard to the provision of social housing. In postwar Japan, public rented housing was only allocated to low-income households and public corporations constructed rental housing for urban middle-income households. Japan's social rented housing sector has always been residual.

The nature of home ownership at the household level has also differed between Britain and Japan. In both societies, owner-occupied housing has provided the material and symbolic basis for family stability. However, the extent to which owner-occupied housing represents 'family space' has always been stronger in Japan than in Britain. In Britain, not only family households but also singles and cohabiting couples have aspired to home

ownership but in Japan the purchase of a dwelling has been typically coincidental with marriage. Moreover, British households move frequently after purchasing their first time housing while Japanese households tend to rebuild their houses in situ once they have acquired their own detached houses. The idea of the family house on family land, which is of little relevance in understanding Britain's housing situation, has dominated Japan's home ownership system.

With the end of the period of high-speed economic growth, both Britain and Japan began to shift housing systems towards a more neo-liberal model. However, the timing of liberalization was different (Forrest and Hirayama, 2009). While neo-liberal policy started in the early 1980s in Britain, the Japanese version of neo-liberal policy began only in the mid-1990s. Britain, as well as many other western countries, experienced a prolonged recession after the oil crisis in the early 1970s, which set off radical changes in public policy (Malpass and Rowlands, 2010). By contrast, Japan's economy recovered relatively swiftly after a short recession caused by the oil crisis, which accounted for the delay in reorganizing policy. However, the Japanese bubble economy, which started with an abnormal rise in real estate and stock prices, collapsed at the beginning of the 1990s, and the subsequent economic downturn fueled the liberalization of public policy.

In both Britain and Japan, by the time neo-liberal ideology was in the ascendance, home ownership markets had become mature with the sustained development of owner-occupied housing sectors. Thus, it was the issue of the reproduction rather than the creation of home ownership that came into focus. However, neo-liberal policy provoked

fundamental changes in the mode of reproduction. In both countries, as in many other advanced economies, the sphere of housing has been the main target of liberalization. As Torgersen (1987) suggested, housing has been positioned as a ‘wobbly pillar’ of social policy, because compared with education, health care and social security, housing is much more likely to be provided in the market domain. For this reason, housing systems have been particularly vulnerable to ideological changes and have been at the forefront of policy shifts.

Both Britain and Japan can be seen to have moved towards a *liberal mode* of reproducing home ownership. However, the way in which neo-liberal policy has transformed home ownership systems has differed, reflecting differences in preceding trajectories with regard to housing policy developments. In Britain, first and foremost, the privatization of council housing was the central measure to expand owner-occupation (Jones and Murie, 2006; Forrest and Murie, 1990). This also meant a decrease in opportunities for those with lower incomes to move into public rented housing and thus more households have been guided into the owner-occupied housing market. In addition, the government launched various new programmes to help low-income groups to access home ownership, including shared home ownership type schemes. Moreover, re-sales of ‘right to buy’ housing expanded the property market. This *privatized mode* in the reproduction of home ownership generated a significant boost to the sector. Some 3.5 million more households were homeowners in 1996 compared with 1979 when the right to buy was introduced – with privatization accounting for at least half of that increase. The public housing stock was the key resource for home ownership expansion delaying, but not solving, an

affordability problem.

In Japan, where no comparable social rented housing to be disposed of existed, this mode of reproducing home ownership was not an option and neo-liberalization took different forms. The government began to reduce the provision of GHLC loans in the mid-1990s and the corporation was ultimately abolished in 2007. The dissolution of the state agency, which had constituted the core of Japan's postwar housing system, represented its neo-liberal housing policy. As a consequence of eliminating the traditional *state-led mode* pertaining to the expansion of property ownership, mortgages supplied by private banks filled the large vacancy in the housing loan market created by the abolition of the GHLC.

Until the onset of the sub-prime crisis, neo-liberal policy had accelerated the financialization of housing, and the monetary aspects of home ownership, rather than its social aspects, had increasingly been emphasized in terms of policy formulation and policy discourse. Financialization was, however, much more noticeable for Britain than for Japan. In Britain, immediately after the 1987 'big bang', an increase in the provision of commercial mortgages with a low level of interest rates began to widen access to the debt financing of housing purchase. Many of the large building societies abandoned their charitable status and became commercial banks, which created a more competitive business environment for the mortgage market and reduced the cost of borrowing. Moreover, progress on the securitization of residential mortgages effectively transferred various risks, relating to defaults and changes in interest payments, to security investors, further encouraging banks to sell mortgages. The government deregulated the mortgage

market to promote the supply of equity-release-type loans. This led to a marked increase in homeowners acquiring re-mortgages for consumption. In addition, the 'buy-to-let' housing market was expanded and an increasing number of multiple property owners obtained rental incomes. In Britain, the mass privatization of public housing that began in the early 1980s combined with progressively intensive financialization to constitute a more explicit *liberal mode*, boosting significantly the overall level of residential property ownership. For a large swathe of lower income households, home ownership became more affordable and accessible. By 1991, the level of home ownership had risen to almost 70 per cent. Thereafter it continued to increase but at a more modest rate and had begun to show a marginal decline in the few years prior to the crisis and credit crunch.

By comparison, the financialization of home ownership in Japan has been significantly slower. The total amount of outstanding mortgages against GDP in 2002 was much lower for Japan at 36.8% than for Britain at 64.3% (OECD, 2004). Japan's 'big bang' policy came in 1996, some ten years after Britain's and it was only in the late 1990s that the mortgage-backed security market began to emerge, and it remained small scale. The provision of equity-release-type mortgages for consumption has also been very limited. In Japan the *liberal mode* of reproducing home ownership has been realized primarily by the discontinuation of the GHLC.

The contrasts between Britain and Japan in terms of the extent to which home ownership was financialized can be explained largely by different economic conditions. From the early 1990s to the sub-prime crisis, many western countries including Britain underwent a

long period of economic growth with unprecedented house price inflation (Kim and Renaud, 2009). This fuelled the expansion of housing-related financial markets and the introduction of various new mortgage-related products. In 1993, the British government abolished the system of mortgage interest tax relief. However, house price inflation increased the relative attractiveness of housing investment, compared with other types of investment. In contrast, from the early 1990s when the economic bubble burst to the early 2000s, Japan was trapped in an extraordinarily prolonged stagnation with minimal or negative growth in GDP, rising unemployment rates and reduced real incomes. This was associated with housing deflation, discouraging the financialization of home ownership.

However, it was not only differences in economic circumstances at the macro level but also differences in housing and financial practices at the micro level that split Britain and Japan with regard to the monetary aspects of owner-occupied housing. Compared with Britain, Japan has been characterized by much higher savings rates and a view of owner-occupied housing as stable and secure ‘family places’ and a generally risk averse approach to residential property ownership (Arakawa, 2003). For most Japanese families, as in Britain, borrowing to acquire their own homes has constituted the single largest debt item over their lifetimes. Unlike Britain, however, there is much greater caution in relation to this housing investment. Generally, Japan has lacked the cultural conditions for the expansion of the market of equity-release-type debt financing. High savings rates also imply that it has not necessarily been important for banks to develop the mortgage-backed security market.

In summary, both Japan and Britain can be characterized as mature home ownership markets. However, these home ownership systems have been created and reproduced in rather different ways through different economic conditions and embedded in different cultures as regards saving and mobility. Japan's home ownership has been driven primarily by a combination of state subsidy and company provision, reflecting what Dore (2000) characterized as the country's rather holistic form of corporatism. In Britain, it has been a combination of a regulated market approach, boosted significantly by a later phase of privatization and financialization. Whereas Japan's GHLC was essentially the sole institution in delivering home ownership to a large cross section of the population, in Britain a series of measures were introduced over time, primarily through the tax system, to enhance access to residential property ownership.

The policy objective of extending home ownership via a less regulated market and the discounted sale of state housing was already running out of steam in Britain by the time the late 1980s recession hit. The state housing sector had been stripped of the best properties and the more affluent tenants. In the private market, house price inflation was eroding space standards as builders sought to provide affordable new dwellings for lower income purchasers. In the recession which lasted well into the 1990s, it was the ex state and low standard private dwellings which fell most in value (Forrest, Kennett and Leather, 1997). The more aggressive, financialized regime which gathered pace in the late 1990s was, in retrospect, a last roll of the dice to squeeze more profit out of the residential sector with little regard for the social project which had ostensibly underlain much of the policy framework of the post war period.

In Japan, the abolition of the GHLC led to the expansion of the private bank mortgage market, and since the 1990s interest rates have remained at extraordinarily low levels as part of a package of policies to stimulate the economy. But the continued deflation of the economy has discouraged the reproduction of property ownership. It has become more difficult for renters to enter the home ownership market largely due to a decline in real incomes. Increasing numbers of homeowners have also been trapped in negative equity with few prospects of moving up the housing ladder and acquiring a better house. Furthermore, since the late 1990s, Japan's neo-liberal policy has aggressively encouraged the labour market deregulation. This has led to a sharp increase in non-regular or casual employees with lower wages and a significant decrease in regular employees. This has translated into a shrinking of that section of the middle classes with sufficient income to purchase a house. It should also be emphasized that while Japan has been characterized by high savings rates, the continuing instability in incomes has begun to affect savings behaviour. Indeed, there are signs that there has been an increase in the number of households with little or no savings. According to periodical surveys on the household economy, households without any savings, which was 5 to 7 percent in the 1970s and the 1980s, has risen to 21 per cent in 2003 (Cabinet Office 2005). The figure was particularly high for younger households—37.4 and 25.3 per cent for households with heads aged 20–29 and 30–39, respectively. These figures indicate the likelihood of a further decline in the number of first-time homebuyers.

### **The consequences of the crisis**

The collapse of the sub prime market occasioned not only a general crisis in financialized capitalism but also a more specific crisis in the reproduction of home ownership. The pace, shape and scope of neo-liberal policies in housing in different countries were path dependent, varying according to different institutional configurations and past policy regimes. But the process of commodification had in broad terms progressed from the privatization of individual dwellings (tenant purchase schemes), the privatization of the management and ownership of collective state assets (mass transfers to private or quasi private landlords) and the elimination of housing related government agencies (such as the GHLC) to the more fully fledged commodification of residential backed securities and related products. These phases were not necessarily sequential, overlapped and some elements were more prominent in some countries than others. Most evidently, the privatization of individual dwellings was of little significance in countries which lacked large state rental sectors, such as the USA and Japan. But the general effect, and inexorable logic, was to extend and deepen profitable opportunities in home ownership sectors. In retrospect, it would seem that neither the early neo-liberal housing reformer nor their critics had anticipated a situation whereby tranches of unaffordable mortgages taken out by poor householders would become valuable commodities to be traded across the globe. As Ferguson (2009) provocatively comments,

“These CDOs had been so sliced and diced that it was possible to claim that a tier of interest payments from the original borrowers was as dependable a stream of income as the interest on a ten-year US treasury bond and therefore worthy of a coveted triple-A rating. This took financial alchemy to a new level of sophistication, apparently turning lead into gold” (pp. 9-10).

We shall return to the question of the compromised social project of home ownership which this process entailed in the next section. The more immediate and evident impact of the crisis, however, was to bring to a sudden halt the extension of home purchase to higher risk, lower income households, where this had been driven forward by securitization. In Japan, home ownership had already lost its gloss as a consequence of the longstanding recession, labour market casualization and the abolition of the GHLC- rather than as a consequence of the fall out from more competitive lending, securitization and sub prime lending. In the UK which had been enjoying a long boom, the impact was a sharper and more immediate credit crunch.

British banking investment strategies were quickly reoriented towards lower risk investment opportunities. In Japan, the banking sector also became more cautious in providing mortgages to lower income households after the collapse of the bubble, and this tendency was further strengthened after the sub-prime crisis. For the residential sector in the both countries, it was now evidently prime rather than sub-prime time .Indeed, the crisis was not bad news for all home owning households. In Britain there were both major winners and serious losers. As the credit crunch began to bite, a large number of households found themselves coming to the end of fixed rate deals and various low early payment mortgage plans. Those in the strongest financial positions, typically on higher incomes, in relatively secure jobs and with high levels of equity and low loan to value ratios were able to negotiate the most favourable terms – as lending institutions sought to minimize risk and cherry-pick prime borrowers. Many households saw their monthly mortgage payments plummet in line with the Bank of England base

rate which fell from 5.25 to 1 per cent between January 2007 and February 2009. And the major banks introduced other enticements and advantaged terms for their prime customers. HSBC, for example, introduced its lowest interest mortgage (at 2.99%) for those with £50k in savings held by the bank, or with large mortgages (over £250k) and a salary of 75k or over.

New borrowers, however, and those on standard variable rates and interest only mortgages were not so fortunate. As higher risk borrowers predictably sought to switch to the tracker type of mortgage to take advantage of falling rates, the lending institutions introduced more restrictive terms and conditions and ‘repriced’ their products to protect and enhance profit margins. This involved the requirement for larger deposits, lower loan to value ratios, ‘collars’ to ensure that trackers did not fall below a certain interest rate and a wider tracking margin (ie 2% rather than 1% above the base rate). Moreover, with falling property prices, the difficulties of entry for new borrowers were not necessarily eased. Even for those with relatively secure jobs and incomes, there were new affordability challenges as loan to value ratios were reduced and deposit requirements increased. A report from the UK’s Council of Mortgage Lenders in 2009 (CML, 2009) found that some 80 per cent of first time buyers had received financial support from their parents. Among those who did not receive, or had no access to such support, the average age at purchase was 37.

In the case of Japan, the GHLC had provided long-term, fixed-low-interest mortgages on standard lending conditions. However, the private banks that replaced the GHLC have offered primarily variable rate mortgages and lending conditions that have been

increasingly varied in terms of interest rates, loan limits and guarantee fees. Together with the post-bubble long recession and the subsequent global financial crisis, there have been widening disparities in mortgage conditions between borrowers in secure employment with middle- to high-incomes and the increasing numbers of those in casual work with lower wages. In Japan, lending conditions have been more strongly linked to borrowers' creditworthiness rather than property values. With the diversification of mortgage commodities, therefore, lower risk households have been able to obtain loans with preferable conditions even if property values have become more uncertain. This has combined with lowered interest rates to benefit the lowest risk, prime housing purchasers.

In Britain, the credit crunch heralded the end of easy borrowing and lending. In Japan, the abolition of the GHLC saw the end of not-for-profit lending. New fault lines have, and are, emerging in the sector, driving a greater wedge between longer established borrowers and new buyers, between the high risk and low risk. The broader context for home ownership is also one in which there has been greater income divergence. Whereas the 'golden age' for home ownership in both Japan and the UK saw rising real incomes, state supported access and relative job security, the neo-liberal era for home ownership has been more polarized. Stated differently, for some sections of the population the prospects of achieving, and sustaining, home ownership have been diminishing rather than increasing. In Japan, for example, not only has income inequality increased over the past two decades, but income divergence has been particularly marked within the younger age groups – those aged under 39. Whilst societal ageing accounts for much of the overall pattern of rising income inequality over the last 20 years, it is the growth of 'freeters' and

'neeters' and the general declining bargaining power of the less educated which are the prime causes of more recent intra cohort inequalities (Ohtake, 2008).

The prospect then is of home ownership sectors which will be more restricted. Access to adequate finance, at reasonable cost and to good quality properties will be increasingly the domain of the relatively privileged, to some degree a reversion to home ownership as a middle class tenure. And with the decline in state support in purchasing a house, family resources are becoming a more significant determinant in the stratification of property ownership. Thus, social class is re-emerging as a stratifying factor in housing conditions and opportunities. Those with stable incomes, in more secure employment and with financial support from the family will have their bargaining positions enhanced. Conversely, those in more precarious jobs and on lower incomes without family resources to call upon will face the prospect of higher interest rates and higher deposit requirements. What could be termed an emerging *family mode* of reproduction of home ownership will have a number of dimensions. First, for the relatively privileged there will be a greater degree of financial dependency on parents among a younger generation still aspiring to greater independence in terms of lifestyles and attitudes – a paradoxical independent dependency which is likely to lead to more intergenerational frictions and conflicts. In Japan, in the context of the new recession caused by the global financial crisis, the government has increased the extent of reductions in gift tax to an unprecedented extent in cases where parents financially support their children in house purchase. This widens the disparity between younger households who can obtain financial support from their affluent parents in acquiring their own home and those who cannot. Second, even among

those able to raise a sufficient deposit there will be a longer delay between leaving school or college and gaining their own home. For the less privileged, long term renting will be a more realistic prospect and will form part of a more general restructuring of private rental sectors. In Britain, for the middle classes, private renting had become mainly a short-term stepping-stone to home ownership or a rite of passage during university life. The more general availability of higher quality private rental accommodation in the context of higher barriers to, and perhaps greater wariness of, accessing mortgage finance will boost the number of households viewing renting privately as a longer-term family home. In Japan, home ownership and marriage remain much more coincidental. Ironically, a greater dependence on family resources is more likely to further depress marriage and fertility rates. The coincidence of leaving home, getting married, starting a family and buying a property will be a less typical experience for younger households. This new era may require some adjustment to previous expectations and to the ideology of home ownership as the family tenure.

It would wrong, however, to overstate the overall impact or to suggest a major crisis of home ownership. For the relatively privileged, it is likely to continue to represent an attractive investment and one with enhanced positional status. The tenure will continue but in a more exclusionary form and without the paraphernalia of the various low cost options and enticements which have characterized the British market and without the state buttress of the GHLC in Japan. The new generation of homeowners will be of necessity more independent of tax breaks and low cost possibilities and there will be more marked intra-cohort divisions, especially among the young.

### **Neo-liberalism and the reproduction crisis**

Neo-liberal prescriptions have affected various areas of social policy but the extent to which housing has been commodified has been much greater compared to social security, health services and education. In Britain the *privatized mode* and the subsequent *financialized mode* relating to home ownership replaced the *regulated market mode*. In Japan the abolition of the GHLC meant the eradication of the postwar *state-led mode* in promoting property ownership. The way in which neo-liberalization has progressed has been peculiar to each society, reflecting the path-dependant nature of housing systems. The onset of the global financial crisis has led to a sharp decline in housing and mortgage markets in many countries, undermining the sustainability of neo-liberal policies. Britain and Japan have again differed in terms of how the new economic crisis has been mediated by institutional and policy contexts as regards the impact on home ownership. In Britain, the continued financialization of property ownership, and the swell in sub-prime lending and equity-release-type debts, underlay and accelerated the credit crunch triggered by the new financial crisis. In Japan, which had experienced a prolonged recession prior to the global financial crisis, the new crisis dealt an additional blow to the already stagnant housing economy.

From different pathways both Japan and Britain now face similar emerging fractures in home-ownership-based neo-liberal policies. The crisis in the reproduction of home ownership is providing a catalyst not only for transforming housing situations but also for undermining the wider, traditional social contracts. In capitalist countries with volatile,

uncertain and precarious economic conditions, states have necessarily been concerned with protecting people's lives in order to maintain social integration and to legitimize themselves. Within this context, home ownership systems have been embedded in the framework of government policies aimed at enhancing social cohesion. However, the excessive emphasis on the economic or monetary aspects of residential properties has resulted in the erosion of the social project dimension of home ownership.

Both Britain and Japan have seen a decline in the cycle in which many individuals and households ascend the property ladder along conventional life courses. This is best represented by the decrease in the levels of home ownership among younger cohorts. Postwar housing policy constituted a mechanism that provided people with the 'promise' of access to mainstream society. Renters in the past regarded themselves as potential homeowners, and young people on low incomes were able to expect increasing incomes and future access to property ownership. With the rise and fall of neo-liberal policy, however, increasing numbers are failing to realize the 'promise' of postwar home ownership and social mainstream participation (Hirayama, 2010a). In Britain a tighter mortgage market and a decline in expectations of property value appreciation are further delaying young people's entry into the home ownership market. In Japan home ownership has been more explicitly implicated in establishing a family, and, therefore, a decrease in the number of young first-time housing purchasers has coincided with falling marriage and fertility rates. In the two countries, mass home ownership has been symbolic of social integration where homeowners have been considered to acquire family security, property assets and social connectivity. This social contract is now threatened by the crisis in the reproduction of home ownership.

Home ownership has also been increasingly intertwined with the formation of asset-based or property-owning welfare states (Groves et al, 2007; Malpass, 2008). In many advanced countries, with the pressures of a more competitive global economy and accelerated aging of the population, there has been growing pressure to cut back on social spending and public subsidies. This has coincided with the tendency for an increasing number of welfare states to promote the individual ownership of residential properties. The basic idea has been that the expansion of home ownership can deter or offset high levels of state welfare and increases in public spending normally necessitated by demographic changes. The outright owners of a house maintain property assets while simultaneously benefiting from minimal housing costs after completing mortgage repayments. A high level of owner-occupation by older groups has thus been seen as an underpinning mechanism for stabilizing society. However, the global economic crisis has unraveled the logic of asset-based welfare. In both Britain and Japan as mature homeowner societies, the current older generations are established outright homeowners, and have not been directly affected by the sub-prime loan meltdown. However, the current younger generations do not necessarily have the same prospects of ascending the property ladder. Future older cohorts may be more stratified with regard to property ownership and fewer will be able to rely on housing assets. The extent to which an asset-based welfare approach can be an effective means of societal integration requires closer scrutiny (Hirayama, 2010b).

### **Concluding Comments**

It has already been stressed that the evident crisis in the reproduction of home ownership is unlikely to change the dominant position of owner-occupation among housing tenure categories in the short to medium term. There are currently no apparent strong competitors to neo-liberalism in policy formulation and implementation. Nevertheless, the view that the foundations of the post war growth of home ownership have been fundamentally shaken has been reflected in numerous popular headlines and reports (see for example, Observer,2010; CML, 2010). Both the British and Japanese governments have been increasingly pressed to reconsider the organization of housing systems and are now likely to move towards a more 'compromised home ownership' with a more tenure-neutral approach.

The reliability of neo-liberal policies to extend property ownership to wider segments of society has been seriously undermined and routes into home ownership have been narrowed, particularly among younger and lower-income groups. This may necessitate new government-assisted means of reproducing home ownership. In Britain, however, it is not clear whether there will be much scope for any forms of direct or indirect subsidy given at least a medium term of severe fiscal austerity, reduced consumer confidence and greater financial insecurity. In Japan, in response to the new economic crisis, the government has begun to reduce tax for home purchasers to an unprecedented extent with a new policy of providing mortgage-interest subsidies. In addition, as was mentioned, new tax concessions have been introduced to encourage in inter-vivo gifts for house purchase. These reversions to state assistance in accessing home ownership are not, however, comparable with past schemes that strongly encouraged house purchase. Indeed,

there is a more evident emphasis on the revitalization and extension of private rental housing in recognition of a growing pattern of delayed entry into, or effective exclusion from, home ownership. In Britain 'social landlords' represented by housing associations are expected to play a significant role in providing the working class with adequate, affordable rented housing-although again, fiscal austerity may compromise policy in this area. The government has also deregulated the private rental market in various ways to expand provision. In Japan the social housing sector has traditionally been residualized, is being further marginalized, and the government is seeking to stimulate the private rented housing market by deregulating the system of tenant protection that has been considered to discourage investment in rental properties. Thus, Britain and Japan have apparently similar orientations with less emphasis on encouraging free-market-based home ownership and more on revitalizing the private landlord.

The immediate consequence of the recent crisis has been a narrowing of home ownership opportunities and the renewed importance of occupational status and family resources as stratifying elements within the tenure. However, more fundamental questions are raised regarding the future role of home ownership in the post crisis social contracts of Japan and Britain. The neo-liberal solution to the housing affordability problem involved the progressive financialisation of home ownership and the distillation of the tenure to its essential monetary elements-a commodity to be traded in myriad forms. The ensuing financial crisis, however, not only compromised this means of expanding home ownership but undermined the tenure's role as a pillar of social integration-the social project.

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