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The Politics of Housing Booms and Busts

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Leonard Seabrooke

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The Politics of Housing Booms and Busts

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Acknowledgments

This book is not an exercise in ambulance-chasing or *schadenfreude*, but has evolved with the housing booms and busts of recent years. Len had previously worked on the everyday politics of credit access for housing, as well as how mortgage securitization had permitted Freddie, Fannie, and Ginnie to spur growth and recycle international capital (in *The Social Sources of Financial Power,* Cornell, 2006). Herman had worked on how a prominent feature of American hegemony in the world economy was its capacity to suck up East Asian capital and put it into areas like housing. Our mutual interest in linking up comparative political economy and international political economy made sense when it came to housing.

We first discussed this project in 2005 and then organized a series of papers on "The New Politics of National Economic Growth: Global Capital Flows and Local Housing Markets" for the International Studies Association (ISA) conference in 2007. This was the only discussion of housing within the international political economy at that conference, and also the first on the topic to our knowledge. The American Political Science Association's annual meeting, held at the height of the crisis in August 2008, was similarly devoid of papers or panels on the housing bubble. As we reflected on what was driving the economy within many Organisation for Economic Cooperation and Development (OECD) member states, and transforming their growth models, it struck us that housing was very high on our list but had no place within comparative and international political economy literature. Such an omission was all the more odd given that for most citizens in the OECD the family home is their main store of wealth, and that mortgages and mortgage-backed securities account for a substantial share of bank assets and securities markets.

Housing, though, is about more than just money. In each of our countries fights over resources and ideas about whether housing is a social right or a means to wealth informed the kind of welfare system and the kind of housing finance system that developed. Transnational trends towards financial deregulation eventually reached the markets supporting housing credit, causing new conflicts with path-dependent national welfare and housing systems. We could see these dynamics as property booms peaked in many OECD economies and then went bust prior to, or at the same time as, the subprime crisis and international credit crunch (for the particulars, see Schwartz, *Subprime Nation,* Cornell, 2009). Our workshops and scholarly exchanges on the politics of housing markets evolved as the crisis dynamics kicked in, requiring all the contributors to this volume to watch carefully how states and markets were responding.

This volume documents the comparative politics of housing booms and busts as they occurred in "real time." The character of these politics differs according to each case and can be understood only through comparison. As the subprime crisis demonstrates, housing finance systems can have large international economic effects, but discussions on how to change them tend to remain national and between competing domestic political and economic interests. We note that at the 2009 ISA conference there were five panels related to the subprime crisis. While the property boom is over, we hope that interest in the political economy of housing markets and housing finance will flourish.

We would like to thank a number of colleagues who offered their thoughts and comments on draft papers and chapters. We would like to thank Gerard Alexander, Randall Germain, Richard Leaver, Lars Mjøset, Peter Nedergaard, Gregory P. Nowell, Ove K. Pedersen, Kasa Sjur, Gunnar Trumbull, and Jane Zavisca for their feedback and criticism. Errors remain ours. Many of the chapters in this collection are significantly revised and updated versions of articles that appeared in a Special Issue on "The Political Cost of Property Booms" in *Comparative European Politics,* Vol. 6, No. 3, 2008. Our sincere thanks go to Ben Rosamond and Colin Hay, two of the editors of *Comparative European Politics,* for their keen interest in the project. Our thanks also go to Mark Blyth for his excellent commentary piece in the same Special Issue. We also thank the Norwegian think tank Res Publica for funding an extremely productive workshop on "The Subprime Housing Bubble and the Crisis in Financial Capitalism" in April 2008, and the Bankard Fund for two summers of research funding for Herman. Our special thanks also go to Trygve Lie for his excellent research assistance. And as all politics is local, we would also like to thank our palindromic spouses, Eve and Anna, for making our houses pleasant places to be.

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1

Varieties of Residential Capitalism in the International Political Economy: Old Welfare States and the New Politics of Housing

Herman M. Schwartz and Leonard Seabrooke

Introduction

Comparative and international political economy (CPE and IPE) are justifiably obsessed with finance as a source of power and as a key causal force for domestic and international economic and political outcomes. Yet both CPE and IPE ignore the single largest asset in people's everyday lives and one of the biggest financial assets in most economies: residential property and its associated mortgage debt. This volume argues that residential housing and housing finance systems have important causal consequences for political behavior, social stability, the structure of welfare states, and macroeconomic outcomes. Put bluntly, home equity and social equity are often at odds. The individual country chapters and paired country comparisons show specific instances of these outcomes, while Chapter 9 considers the origins and responses to the 2007–08 crises. This introductory chapter has broader aims.

First, we argue that housing finance systems are as politically central as systems of industrial finance. The kind of housing people occupy and the property rights surrounding that housing constitute political subjectivities and objective preferences not only for the level of public spending, but also for the level of inflation, the level of taxation, and the nature of that taxation. Different kinds of housing finance systems thus produce different political subjectivities influencing the core issues on which IPE and CPE typically focus. Our concern is not simply a reaction to the global financial crisis that emerged from the subprime mortgage bond crisis of 2007 and 2008 (for analyses of its sources and effects, see Seabrooke, 2006 and Schwartz, 2009), but also with understanding how housing finance systems – what we refer to as "varieties of residential capitalism" – are important for national economic systems and stability and order within the international political economy.

Second, we argue that housing finance systems also have important institutional complementarities with the larger national political economy. This comports with arguments in the varieties of capitalism (VOC) literature (Hall and Soskice, 2001). But we diverge from the VOC approach in four ways. First, sorting countries by the degree of financial repression – systematic state control over the volume, direction and price of credit – in their housing finance systems produces groupings that do not correspond one-to-one with the liberal versus coordinated market economy (LME vs. CME) distinction at the heart of the VOC approach. Second, where VOC is concerned with explaining the structure of manufacturing and export specialization and largely eschews causal arguments about macroeconomic outcomes, housing market finance systems are much more connected to macroeconomic outcomes than to what is being produced. Moreover, as Schwartz's and Watson's chapters show, housing finance systems mattered for the distribution of global growth in the past two decades, and growth largely favored one specific variety of residential capitalism. As Pollard's chapter, too, demonstrates, the supply of housing within national systems reflects both prior institutional systems for supplying housing and political aspirations for economic change. Third, divergent macroeconomic performance, combined with the fact that housing finance is a substantial portion of domestic investment everywhere, suggests serious limits to the VOC approach insofar as it tries to explain outcomes on the basis of *domestic* complementarities alone (see also Blyth, 2003). Financially repressed and financially liberal systems are globally interdependent, and the deregulation of national housing finance systems has largely been a transnational phenomenon, often tied to processes of globalization and Europeanization. As Mortensen and Seabrooke point out in this volume, the impetus for change is often political and regional, such as with Denmark's compliance with, or anticipation of, European Commission financial directives. More informally, external institutions such as the Organization for Economic Cooperation and Development (OECD), primarily through their policy reports, as well as lobby groups such as the European Mortgage Federation (EMF) also pressure national policymakers. As a method of study, VOC deals poorly with transnational processes, but the varieties of residential capitalism we identify do not operate in a transnational political vacuum. However Pollard (this volume) disagrees, pointing out that the construction industry is still substantially local in nature. Fourth, the degree of financial repression in housing directly affects the degree of social stratification. In repressive systems, housing finance tends to reinforce existing patterns of stratification, while in liberal systems housing finance enables a reordering of intergenerational wealth transfers with corresponding political effects. Finally, convergence and divergence in housing finance may also be a matter of external political influence, an element that is missing from the VOC approach.

Our third major point is that housing finance systems have ballot-box consequences because, among other things, they affect voters' preferences for the level of public spending, taxation, and interest rates. The institutional structure surrounding housing thus has important political consequences paralleling those of welfare institutions. Houses and welfare programs both confer rights to a stream of income or services onto people. But unlike welfare programs, houses are potentially tradable assets – the income stream or service can be sold, and the value of that stream rises or falls with interest rates and demand pressure on the housing market. The political effects emanating from housing thus depend on specific conjunctural combinations of prices, interest rates, and homeownership patterns.

In an economy with unevenly distributed ownership of assets, sharply rising housing prices rise will exacerbate existing inequalities of wealth. Access to new kinds of housing loans can provide the means to defer payment on such loans or help owners to hide assets from tax authorities while they transfer property ownership to the next generation. These effects will vary according to differing institutions, interests, and norms within a society – producing distinctly political varieties of residential capitalism. In societies with a strongly developed norm of "asset-based welfare" the distribution of wealth over generations is likely to become a hot political topic, particularly for housing affordability (see Schwartz, Watson, Broome, and Mortensen and Seabrooke this volume). In societies where the state has provided generous supplements to support access to public or private housing, property booms may encourage citizens to reconsider how well their welfare monies are being distributed (see Tranøy, and Mortensen and Seabrooke, this volume).

The degree of decommodification and stratification we find in housing markets diverges from the patterns which the traditional welfare state[1] literature would predict. In contrast to the apparently stable welfare state configurations Esping-Andersen (1990) typologizes as liberal, conservative, and social democratic welfare regimes, deregulation of housing finance systems has enabled considerable divergence with respect to preferences, incentives, and consumer behavior. In many countries perceptions of self-interest in relation to housing markets have been dramatically realigned away from communal wealth and towards increasing individual wealth, even within countries in which property was commonly considered a social or communal right. This makes understanding changing everyday behavior particularly important (Aalbers, 2008; Langley, 2008; Seabrooke, 2006, 2007).

We offer some speculation about the current conjuncture: how will pocketbooks drive politics when housing prices fall globally and homebuyers face further stretching of already strained budgets to cover living expenses and mortgage payments? Put simply, we argue two things. First, because the current conjuncture combines high housing price levels and thus high levels of mortgage debt with relatively low interest rates, the constituencies for a low-tax, low-inflation policy package are much larger than they would otherwise be. Much as Margaret Thatcher hoped, but for different reasons, today's housing market has conscripted more manpower for the trenches defending parts of the neoliberal policy line of the past two decades. Second, because more liberal housing markets seemed to deliver better macroeconomic outcomes in terms of Gross Domestic Product (GDP) and employment growth, politicians and policymakers in financially repressed housing markets faced pressure to introduce the elements that make housing finance systems "liberal," particularly the securitization of mortgages (the bundling of hundreds of individual mortgages into one bond for sale into capital markets). But the current crisis will inevitably prompt a backlash against U.S.-style financial engineering everywhere. How will this affect the degree of complementarity or coherence characterizing financial institutions in coordinated and liberal market economies? Will they each become more hybridized? The contributions by Tranøy and Mortensen and Seabrooke demonstrate that even before the 2007–08 crises, the politics of housing had become extremely sensitive politically. Even high-income, high-welfare societies, like Norway or Denmark, that traditionally had low levels of residential owner-occupation saw fights between political parties and among social groups over the types of housing loans and tax burdens. Many overtly socialist political parties now blush at any suggestion of increasing property taxes, fearing that such a policy would make them unelectable. And within more liberal systems some political parties have made a great deal of headway by trumpeting the crisis in housing affordability for ordinary workers.

In the following sections we first locate housing finance within extant CPE and IPE literatures. We then show the lack of correspondence between the types of OECD housing systems and the usual welfare systems and VOC typologies. We then discuss the importance of framing and discourse in understanding why homeowners within the countries discussed do not simply respond to market incentives but change their attitudes and conventions towards housing in a manner that realigns what they consider their material self-interest to be and their own role and responsibilities within economy and society. We conclude by briefly highlighting how the chapters in this volume speak to our key themes and conclude with a call for further research on varieties of residential capitalism within the international political economy.

1.1 Houses, housing finance systems, and political economy

Do housing and housing finance matter politically? The supply side orientation of traditional CPE and IPE gives them few answers to this question, although as Pollard (this volume) shows, a supply side understanding of housing does matter. In IPE literature, research on finance largely examines aggregated flows of capital, foreign direct investment, and the effects of liberalization of capital markets on national policy autonomy (Singer, 2007). Pride of place goes to analyses of deregulation, pure financial flows, and speculation-driven financial crises. CPE literature largely attends to manufacturing, which now accounts only for between one-sixth and one-fifth of most advanced economies. Analytic pride of place goes to employment and training systems, collective bargaining regimes, production systems, and financial systems understood in relation to the supply of capital to manufacturing. Financial analyses thus tend to look at aggregated stock and bond markets as providers of investment capital for, and oversight of, manufacturing firms, with occasional detours into the role of block-holders (institutions, like banks or pension funds that own a controlling portion of a firm's shares) or other institutional investors (e.g. Gourevitch and Shinn, 2005). CPE's attentiveness to finance generally dissipates once it has considered the relationship between industrial policy and finance (e.g. Hall and Soskice 2001; Zysman, 1983). The usual point of intersection between the IPE and CPE research domains is typically a debate about the allegedly homogenizing effects of globalization, or consideration of issues of comparative competitiveness (which largely ask, *"who's doing it better?"*), rather than trying to assess the articulation of financial flows at different levels in the global economy (Germain, 1997; cf. Seabrooke, 2001).

Even before financial crises cascaded out of dodgy mortgage-backed securities, IPE and CPE's analytic neglect of residential property markets was odd. In many advanced industrial economies the family home is *the* key asset in a given household's portfolio. In 2004, the median net worth of the bottom 90% of U.S. households was approximately $40,000. Yet for the homeowners who bought housing between 1999 and 2005, median net worth jumped from $11,000 to $88,000 in real terms, driven largely by rising home equity (Harvard University Joint Center for Housing Studies, 2008, 16). Key international institutions agree on the macroeconomic centrality of residential property. The International Monetary Fund (IMF) and the World Bank have been interested in residential property markets as means to revenue stability and economic development in emerging markets. The Organisation for Economic Cooperation and Development (2005b) has specifically criticized member states' governments for permitting property booms potentially to rob from further wealth creation, and has strongly advocated the removal of implicit government subsidies that sustain public residential property markets.[2] Given the importance of economic growth and well-being in people's and parties' electoral calculations, it is odd that IPE and CPE largely ignore houses while favoring narrower policy areas. Finally, while labor disputes in the late 1960s and early 1970s clearly helped to terminate the Bretton Woods or Fordist period of growth, housing helped to start and stop the current period of growth (Schwartz, 2009).

Our point here is not that IPE and CPE's extant foci are wrong, but rather that each ignores a major source of political behavior and macroeconomic outcomes and this leads to omitted variable bias. Nor is our point that the usual analytical tools of CPE and IPE cannot be applied to understanding changes in residential property markets. On the contrary, this volume uses some of the traditional IPE and CPE tools to understand the politics and economics of residential property markets in a comparative, international, and transnational context, albeit in ways that force a reassessment of those tools. This chapter, and Schwartz's Chapter 2, also show how that understanding sheds light on some persistent problems explaining the core macroeconomic outcomes of employment and growth.

We pose three broad questions to open up a discussion of housing related to *ownership, credit access,* and *welfare redistribution*. First, what is housing in any given society, how do people think about it, and who owns it? Housing may be understood as a consumption good, as a social right, or as an investment vehicle. Ownership may be understood as private, public, communal, cooperative, or familial. Tracing how commodified housing systems are provides some insight into these dynamics (commodified is the degree to which people's access to housing depends on their market incomes and market-based transactions rather than a socially guaranteed access). Second, how are houses financed? What access is there to mortgage credit within a system? This includes access to first-time homeowner grants and subsidies, the determination of fixed or variable interest rates, the deposit requirements for a loan, whether the contractual terms favor the creditor or debtor, the role of nonbank financial intermediaries, and the extent of mortgage securitization. Third, how is housing treated within the national welfare regime for tax purposes? What taxes are paid, or tax breaks given, on housing-related matters? Whether systems favor mortgage interest deductibility, property taxes, taxes on capital gains from housing sales, state subsidies for rental payments, or tax breaks for investors in social housing will all affect the national economy. All three of these issues also generate everyday politics about what is appropriate and legitimate as regards who owns, who has credit access, and who is paying which taxes in a given country.

The answers, put bluntly, are that housing finance systems can connect people to global capital flows and interest rates in a more direct way than tax systems, public debt, or employment. But the degree of decommodification and stratification this connection produces varies by the level of owner-occupancy and the structure of housing finance markets. In turn, because housing is often people's key asset, housing creates immediate and different partisan and policy effects over tax resistance, preferences for cash in hand over social services, orientations towards inflation, and preferences for the party that best protects property or property values regardless of which party that happens to be. Housing creates durable, structural effects on politics, much like pension systems. Because the big political questions often revolve around structural or institutional issues, housing finance systems have substantial and long-term political consequences.

1.2 Housing and the welfare trade-off

We can break housing systems up along two major dimensions, both of which are objective, but which in turn give rise to different subjective understandings about housing. The first objective dimension is the degree to which people are owner-occupiers rather than renters, measured by owner-occupation rates. This tells us something – but not everything – about how decommodified housing might be. The second is the degree to which housing finance is "liberal" or "controlled," measured both by the level of mortgage debt in relation to GDP and the degree of mortgage securitization. As we will see, this reveals how stratified homeownership is and also suggests the potential macroeconomic consequences of different housing market finance systems. These two objective dimensions are convenient because they are suggested by the welfare state literature's traditional typology as well as that of the VOC literature. We amend these typologies better to reflect the role of state developmentalism which refers to state efforts to promote industrial development using targeted investment subsidies (in which "late development" can place barriers on welfare claims, see Uzuhashi, 2003), as well as the role of the family in mediating welfare concerns and protecting intergenerational equity (see, for example, Hemerijck, 2002).

Subjectively, commodified markets with large numbers of indebted owner-occupiers are clearly liberal in nature, and people are likely to see housing as a form of investment to a greater degree than in systems dominated by socially provided rentals, where housing is more likely to be perceived as a social right, or in self-help systems where families build their own housing. Between the poles of housing as an investment vehicle and housing as an object of family consumption, mixed systems obviously have their own dynamics where housing is perceived as a social right. High levels of ownership but low commodification indicate a familialist mentality. By contrast, low levels of ownership are not necessarily associated with less market pressure on individuals, because renters do not necessarily have flexibility in their housing choices. The degree of commodification rises with rising mortgage debt, since debt service requires cash income.

Breaking housing systems up by owner-occupation and financial structure creates a four-cell table. Figure 1.1 displays the degree to which the 19 OECD member countries for which we have data deviate from the average OECD level of owner-occupied dwellings as a share of all dwellings (a measure of relative exposure to markets and thus the potential for commodification) and from the average level of mortgage debt in relation to GDP (a measure of the financial structure and the potential for stratification). To provide some analytical coherence, we label our four different housing finance systems in ways that correspond to

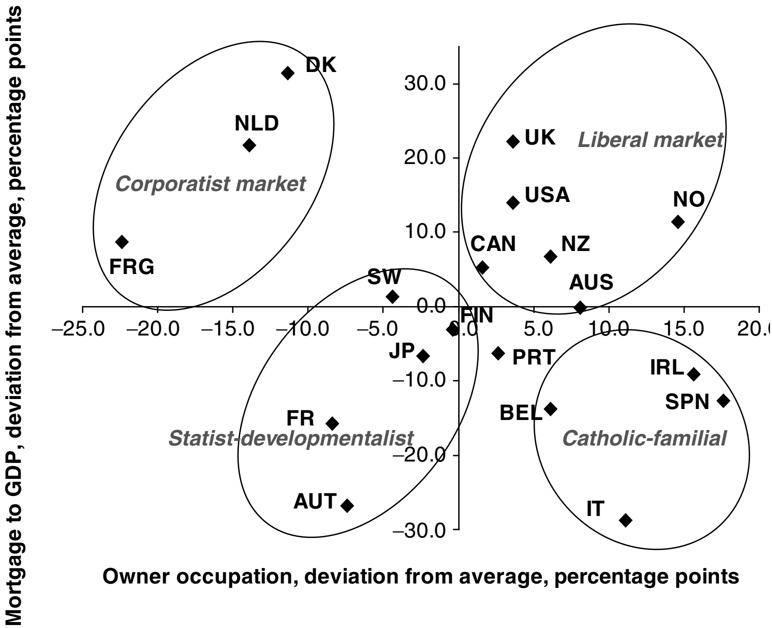

Figure 1.1 Relative deviation from average OECD levels of mortgage debt to GDP and owner-occupation prevailing 1992 to 2002 (percentage points)

the common distinctions made in the welfare states and VOC literature even though there is no one-for-one correspondence.

What makes these groupings coherent? By capturing the interaction of owner-occupancy and financing regimes, Figure 1.1 suggests the four ideal-types displayed in Figure 1.2. The groupings are not distinct enough to make an extremely robust causal argument. However a plausible explanatory logic links two or possibly three causal forces: the interaction of pensions and owner-occupation, competition for investment capital, and the level of urbanization or new settlement in the postwar period. Again, we can look to the welfare states and VOC literature to explain some of these dynamics, although it is already clear that we will have to modify each.

First, does owner-occupation or high mortgage debt expose people to market pressures or inhibit welfare state development? Gøsta Esping-Andersen used the degree of decommodification in social policy to typologize welfare states as social democratic, conservative, and liberal ideal-types (Esping-Andersen, 1990). Francis Castles argued for a “wage

(Figures in each box are unweighted average % level for group for the indicator)		*Owner-occupation rate* (average of 1992 and 2002)	
		Low	High
Mortgages as a % of GDP (average of 1992 and 2002)	High	**Corporatist market** Mortgage::GDP: 58.3 Owner-occupation: 47.0 Social rental: 20.7	**Liberal market** Mortgage::GDP: 48.5 Owner-occupation: 70.1 Social rental: 9.4
	Low	**Statist-developmentalist** Mortgage::GDP: 28.2 Owner-occupation: 58.3 Social rental: 16.8	**Familial** Mortgage::GDP: 21.6 Owner-occupation: 75.5 Social rental: 5.5

Figure 1.2 An analytic understanding of Figure 1.1 for 19 OECD countries

earner" variant, encompassing Australia and New Zealand and possibly Ireland and Finland, and then later a southern European variant (Castles and Mitchell, 1992). But in Figure 1.1 Esping-Andersen's social democratic and corporatist/conservative groups both break up. While the northeastern "high-high" (high commodification, high ownership) "liberal market" group includes most of Esping-Andersen's liberal cases, and also Castles' wage-earner states, it also includes Norway, a social democratic welfare state (Tranøy, this volume, suggests reasons why this occurs). These countries combine early homeownership, a liquid market for houses, and mortgage securitization.

By contrast, social democratic Denmark ends up among what we call "corporatist-market" neighbors in the high-low northwest quadrant. These countries combine relatively large public/social rental sectors with substantial mortgage securitization or large nonbank holdings of mortgages. Sweden and Finland occupy an ambiguous position close to the origin, but their nearest neighbors are countries in the southwest quadrant that share state targeting of industry or a high level of public industry, which is why we call them "statist-developmentalist." Sweden aside, they lack any substantial mortgage securitization, increasing the state's leverage over financial markets and thus its ability to target sectors. These countries also tend to have low rates of homeownership. The southeast quadrant is a set of familialist countries that lack both social housing and securitization but do have high levels of homeownership. This quadrant should be closest to Esping-Andersen's conservative type, but does not encompass all his cases.

Esping-Andersen's categories ultimately rest on an explicit causal model and not just a measure of decommodification. For Esping-Andersen, different configurations of class power produced different sets of policies characterized by different degrees of decommodification, stratification, and universality. All other things being equal, more power for labor should produce a correspondingly higher level of decommodification and universality. This is roughly – but only roughly – borne out by Figure 1.1, because high levels of political power for labor are associated with a general tendency to have below the average level of owner-occupancy. Indeed, Esping-Andersen's first book (1985) explicitly linked variation in Scandinavian housing policies to social democratic parties' desire to prevent a split from emerging between homeowning white collar workers and blue collar renters. Yet by the 1990s homeownership levels in three cases no longer reflected his assessment of labor's relative strength, with Sweden intermediate to high rental Denmark and homeowning Norway.

Our categorizations could diverge from Esping-Andersen's simply because his ideal-types are *regimes* that will always encompass some deviant programs. And, as Esping-Andersen noted many times in response to his critics, not all cases conform tightly to his ideal-types. This could indicate that the discrepancy between where countries fall in Esping-Andersen's categories and ours might be meaningless. Nonetheless, we think our categories have some degree of internal coherence that suggests both causal and consequential logics. The causal logic however is somewhat at odds with Esping-Andersen's argument. Putting aside whether labor naturally seeks decommodification, the issue here is whether a higher level of power for labor produces greater decommodification in housing markets, as measured by the levels of owner-occupation and mortgage debt. If our housing groups share similar causal forces this would force us to reconsider Esping-Andersen's regimes. The classic debate between Jim Kemeny (1980) and Frank Castles (1998) over the salience of owner-occupied housing for the development of the welfare state suggests this kind of reconsideration (see also Malpass, 2008).

Kemeny (1980) argued that a trade-off existed between owner-occupation of residential property and the quantity and quality of welfare state benefits. This trade-off did not arise from differences in the total life cycle cost of housing across societies but rather its temporal distribution. The total life cycle cost of owner-occupied or rented housing was the same at any given level of income for a society or a specific individual. What varied was the distribution of costs over a given individual's life cycle. Renters spread the housing costs over their entire lifetime, making essentially level payments each year. The arrival of children in the middle of renters' life cycles would push up housing costs at roughly the same time that their incomes rose; symmetrically, as income fell at the end of the life cycle, children would depart and housing costs would fall.

By contrast, would-be purchasers of owner-occupied housing face a front-loaded schedule of payments. Buying a house compresses the bulk of the life cycle cost of housing into a household's early years. First, households have to save for a down payment. In the early and middle part of the twentieth century, when welfare regimes were forming, these down payments were considerably larger than they are today as a percentage of the purchase price, but even today 20% is a fairly common requirement in most countries. Second, the normal mortgage term is typically less than 30 years and in many countries mortgages have 15-year terms. Consequently, a household might spend its lower-income twenties accumulating a down payment and then its thirties and forties paying off a mortgage. Italy, where a 50% down payment and a ten year amortization schedule were common until recently, provides an extreme example of this kind of compression.

Kemeny argued, all other things being equal, that this front-loading of housing costs made homeowners a natural constituency favoring a smaller welfare state. Young, lower-income households faced a sharp trade-off between cash income for home purchase and taxes for social welfare services. They would also not favor extensive government borrowing, since this would inevitably raise interest rates and thus the monthly cost of a mortgage (Watson, this volume). By contrast, renters would face a less sharp trade-off between taxes and cash income because renting did not crowd housing expenditures into one of the lowest income periods of life. Kemeny's key insight thus was that the level of homeownership was not a natural outcome of rising or high per capita income levels, but instead reflected political choices by voters and parties. High-income economies like Denmark and Germany could exhibit low levels of homeownership if politics and policy favored social spending, including social housing, over private homeownership (Kemeny, 2005, 60).

Frank Castles' (1998) critique of Kemeny and Esping-Andersen provided a more compelling and focused causal argument with a more precise micro-foundation for homeowners' relative hostility to welfare spending. More recent research by Dalton Conley and Brian Gifford (2006) confirms Castles' intuitions. Castles noted that countries with low levels of old-age pension provision also typically had high rates of private homeownership. Housing generally constitutes not only the greatest single item in most retirees' budgets, but also, with food, one of the least substitutable or dispensable. Castles thus argued that the imputed income from homeownership substituted for public pension income, a point consistent with his broader argument about "social policy by other means" in the wage-earner welfare state. For Castles, housing choices specifically affected pensions, but not necessarily other aspects of the welfare state. Countries or individuals could trade off homeownership against robust public pensions. Causally, settler societies with high levels of homeownership prior to the emergence of public pension systems would be less likely to develop robust public pensions, because freehold ownership of housing sharply reduced the income requirements of the homeowning elderly. Echoing Kemeny, Castles also noted that better off parts of the elderly population were more likely to own houses and thus were less favorably disposed towards higher taxes to provide cash income to elderly renters. In addition, while both renters and owners bear the cost of property taxes, these taxes are most visible to owners, and it is visible taxes that always draw the most resistance (Martin, 2008). As such, homeownership split the natural elderly constituency for expanded pensions.

While Castles and Kemeny disagree somewhat on details, they agree on the central premise about private homeownership: down payments and mortgages have important political consequences because they crowd out taxes early in a voter's life cycle. The level of homeownership shapes citizen attitudes on the extent of commodification or decommodification of housing markets and time-horizons about welfare maximization. But the critical dimension with respect to decommodification is not simply the degree to which housing is socially or privately rented, and the degree of rent control. Societies with high levels of homeownership and (as we will see) liberal mortgage markets are just as likely to have large socially rented sectors as those with controlled mortgage finance. Thus in Denmark, Britain and the Netherlands, socially rented housing accounts for more than 20% of the entire housing stock and in excess of half of the rental stock. Indeed, even after Margaret Thatcher, British social housing accounted for roughly 70% of the rental stock (making Britain an exception in this regard to the broader liberal trend). By contrast, in high owner-occupier Italy, Spain, and Ireland, the social rental sector accounts for less than 10% of all dwellings and less than half of an already relatively smaller rental stock (European Central Bank, 2003). Simply looking at the level of owner-occupancy does not tell us whether homeowners are exposed to the market. Do we really think that Italians or Spaniards, who on average are more likely to own their own home free of a mortgage than Americans or the Dutch, are more exposed to the market? These considerations suggest looking more closely at the level of and access to mortgage debt.

1.3 Varieties of residential capitalism and institutional complementarities

Above we discussed how housing forces us to adjust the common ideal-types in the welfare state studies, while suggesting the political importance of housing. Can we integrate housing finance systems with the VOC literature and the broader work on comparative capitalisms? Our first cut into this literature is to assess to what degree housing finance systems are liberal or repressed/controlled, because this affects how owner-occupied housing articulates with global markets, which, in turn, affects the stratification of owners by wealth. The degree of financial repression ultimately boils down to the degree to which mortgages are securitized and the depth and internationalization of mortgage pools.

The VOC literature splits the world into liberal and coordinated market economies (LMEs and CMEs), depending in part on the degree of financial repression and the presence of coordinating block-holders or actors in capital markets. VOC argues that the institutional ensembles constituting LMEs and CMEs produce specialization in different kinds of export goods, with repression and block-holding characterizing CMEs. Housing finance markets also clearly vary in the degree to which financial repression is present, but with types and outcomes that differ from VOC's. The critical differentiating *outcome* with respect to these segmented markets is the level of mortgage debt in proportion to GDP. The scale of mortgage debt matters for macroeconomic outcomes, not export specialization. Consistent with VOC literature, this outcome is a function of the degree to which states practiced financial repression, not in general, but in their specific housing market.

Mortgages matter macroeconomically because they provide a significant drain on savings, and may also stimulate housing-related consumer demand (Schwartz, 2009). All OECD member states thus have clear regulations for housing finance systems, including limits on lending and deposit interest rates, quantitative limits on mortgage credit, and strict limits on loan-to-value (LTV) ratios for mortgages (Girouard and Blöndal, 2001).[3] Table 1.1 displays the predominant features of the major OECD cases.