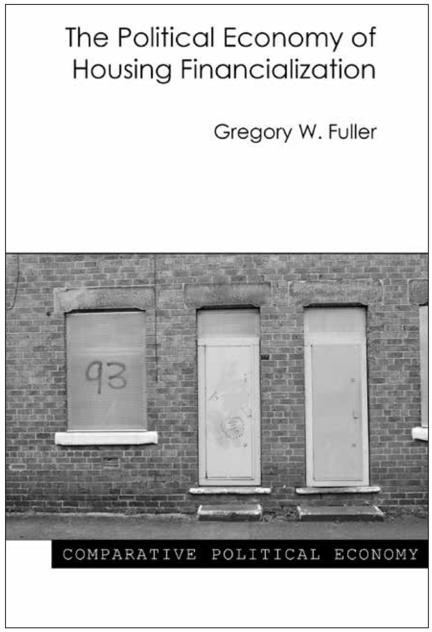
Book review: Gregory W. Fuller: The Political Economy of Housing Financialization

Gunten, Tod Van

Gregory W. Fuller: The Political Economy of Housing Financialization

Reviewed by Tod Van Gunten



The dozen years since the global financial crisis of 2008 have seen a renewal of research into the political economy of housing and mortgage markets. The crisis showed that a seemingly obscure corner of the US mortgage market – subprime lending and associated mortgage-backed securities – could bring the global economy to its knees, exposing blind spots in macroeconomics and political economy. Greg Fuller's new book *The Political Economy of Housing Financialization* is a welcome synthetic addition to this literature, taking stock and pointing in directions for further research. Fuller argues that the financialisation of housing systems – the extent to which access to homes is mediated by financial markets – has crucial implications for macroeconomic stability, inequality, and politics. In keeping with the focus of this journal, this review focuses on the linkage between housing financialisation and inequality, including intergenerational inequalities.

The structure of the housing market – whether homes are primarily purchased or rented, the size and shape of mortgage markets, and so on – varies widely across countries. Fuller helpfully characterises this variation in terms of financialisation, defined in this context as a form of commodification which makes the exchange of homes dependent on financial products. Housing financialisation varies on several dimensions: mortgage credit, housing tenure (ownership versus renting), social housing, and asset values. The most obvious form of housing financialisation is the prevalence of mortgage credit: given the cost of housing, homeownership practically requires access to credit in some countries. In some Southern and Eastern European countries, however, a significant subset of homeowners acquired homes through post-Communist privatisation schemes, inheritance, or simply purchasing real estate outright. Thus, homeownership often, but not always, entails greater financialisation of the housing market. Rented housing rarely makes housing contingent on access to a financial product, while homeownership more often does. Provision of social housing further decommodifies and "de-financialises" access to homes though rental price controls, subsidies and other mechanisms. Finally, residential real estate is an important component of wealth – the most valuable asset owned by all but the wealthiest households. Households may use this wealth as leverage to fund current consumption or pass it on to the next generation, and variation in housing prices critically affects these decisions.

Thus, housing financialisation is not one-dimensional, but represents distinct configurations of owned and rented housing, levels of mortgage debt, provision of social alternatives, and trajectories of real-estate prices. Scholars of the political economy of housing have been searching for some time for a concise typology of housing systems on a par with well-known categories of welfare states and the "varieties of capitalism". As Fuller notes, these typologies have met with numerous challenges. Fuller's own solution groups the Netherlands with the liberal market economies to form an "Anglo-Dutch" formation, as well as Scandinavian, Continental, Southern and Eastern European clusters. The Anglo-Dutch countries are the most financialised, with high levels of mortgage debt and active housing markets with legacy social housing systems undergoing privatisation. Scandinavian countries are also highly financialised – these countries have the highest levels of household debt anywhere – though they are less involved in the trading of mortgages on secondary markets through securitisation. Continental countries have moderate levels of financialisation, and Southern and Eastern Europe even less.

While this typology is a useful heuristic, it does leave many questions answered. For example, Fuller's "continental middle" is vastly heterogeneous, including both the high-homeownership, high-debt Iberian countries and the low-homeownership, comparatively low-debt Germany and Austria. Switzerland has levels of debt similar to Scandinavia and the Netherlands on some measures, and its more explicit inclusion would complicate the picture further. "Southern Europe" here includes only Italy and Greece, with the Iberian countries looking increasingly like the "Anglo-Dutch". The line between the latter and Scandinavian countries is fuzzy, and a case could be made for simplifying the scheme by combining them. Like previous attempts, this typology is unlikely to resolve debates about the "varieties of residential capitalism"**.**

Fuller considers the implications of this typology for wealth inequality in chapter four. There are few up-to-date general texts on housing and inequality, and Fuller's concise summary of several critical avenues for research clarifies the terrain substantially. The chapter considers three hypotheses linking housing financialisation and wealth inequality. The first is the incumbency channel. Because residential real estate makes up a large portion of the total net wealth of all but the wealthiest households, the value of homes and other housing assets is critical to understanding wealth inequality. Rising housing prices increase the net wealth of homeowners but not renters, thus benefiting housing market incumbents at the expense of outsiders (who may be attempting to purchase housing). Since homeowners are already relatively wealthy, the asset price effect should magnify existing wealth inequalities. This is connected to financialisation for several reasons, the most important of which is that the flood of capital into mortgage markets in recent decades appears to be a major driver of rising prices. Consistent with this, housing price increases have been highest in the highly financialised Scandinavian and "Anglo-Dutch" housing systems.

The incumbency effect on wealth inequality is an important hypothesis enjoying some empirical support; however, Fuller does not discuss some countervailing evidence. For example, during the 1995–2007 housing boom in the United States, wealth inequality remained virtually unchanged (Wolff 2013). Similarly, wealth inequality in the UK declined during the boom years (D'Arcy/Gardiner 2017). While this does not invalidate the incumbency hypothesis, it does require that some compensating mechanism offsets the incumbency effect. The ambiguity of the evidence only underscores the point that this is an important and promising area of empirical research.

The second hypothesis linking financialisation and housing to wealth inequality is the intergenerational channel. Since housing market incumbents tend to be older on average, the hypothesised incumbency effect has an intergenerational dimension: rising housing prices will increase the wealth gap between younger and older households. This effect is closely associated with the widespread trend towards households acquiring owned homes later in life, and even delaying departure from the parental home and the establishment of an independent household. Fuller acknowledges that the connection between these phenomena and inequality is complex: on the one hand, increased availability of mortgages might facilitate the purchase of housing; on the other, if torrents of credit pushing housing prices up is the cause of spiralling housing prices, then financialisation contributes to inequality. Fuller acknowledges that the empirical challenges to identifying these processes; again, the book usefully outlines an important area of research.

The third hypothesis is what Fuller terms the locational channel. Housing price increases tend to be unevenly distributed across space, with prices highest (and seeming to increase more quickly) in urban cores and other enclaves, compared to other regions. Thus, another important wealth gap is between urban and rural, global financial centres and political hubs like London and Paris versus smaller cities, and even between areas within cities. Once again, data are limited, but Fuller presents evidence suggesting greater volatility in the price gap between capital cities and rural areas in highly financialised Anglo-Dutch and Scandinavian countries (though the pattern is far from clear-cut).

The incumbency, intergenerational and locational channels represent three key hypotheses that invite further research. Fuller omits another key linkage between housing and wealth inequality, which may interact in complex ways with these effects: the asset effect of homeownership itself. Countries with high homeownership rates tend to have lower levels of wealth inequality (Kaas et al. 2019); for example, Spain (with a homeownership rate around 80%) has a wealth Gini coefficient around .6, while Germany (with a 45% homeowner rate) has a coefficient above .75. This effect is large and fairly straightforward: high-homeownership countries seem to make real estate ownership more accessible to lower-income households; because housing weighs so heavily on household balance sheets, the prevalence of middle- to lower-income households with net housing wealth depresses the level of wealth inequality.

This observation has complex implications for Fuller's observations about inequality and financialisation. To the extent that high-homeowner countries are more financialised, this implies that financialisation is associated with *lower* wealth inequality. On the other hand, the house price dynamics emphasised by Fuller point to an opposing effect resting on two observations. First, as already noted the massive shift of capital into mortgage credit over the past several decades has played a key role in pushing up housing prices. Second, this appreciation is effectively pricing recent generations out of the market (as reflected in declining homeownership rates across the board, and in younger age groups in particular) and delaying homeownership and thus wealth accumulation. To the extent that these two observations are correct (and not offset by other factors), then financialisation is driving intergenerational inequality in at least two senses. First, access to owned property is in and of itself a metric of inequality: if younger generations aspire to purchase homes but cannot afford them, this *is* an aspect of inequality. Second, as noted above, the inability to achieve homeownership (or substantially delayed ownership) will show up in the data as increased wealth inequality between generations and, potentially, as an increase in the overall wealth Gini coefficient.

There are many other intersections of finance, housing and inequality that could be added. For example, American sociologists have long studied discrimination in housing and mortgage markets and how these processes contribute to racial and ethnic segregation. While Fuller's focus is primarily European, it may be worth asking similar questions about ethnic and immigrant communities in European cities. The locational channel connects the political economy of housing with classic questions of urban form and socio-spatial inequalities (e.g. housing segregation), a dimension not developed here.

However, the goal of the book is to synthesise and take stock, and in this sense it is successful. In short, Fuller lays out an empirical research agenda linking residential real estate and housing finance to wealth inequality in which scholars need to think broadly about inequality metrics. Intergenerational and spatial inequalities matter in addition to aggregate indexes like the Gini coefficient. Hopefully, this book will help researchers focus their attention and research effort on the important and complex intersections of housing, financial markets, and inequality.

Fuller, Gregory W. (2019): The Political Economy of Housing Financialization. Newcastle upon Tyne: Agenda Publishing. 168 pages. ISBN 9781788210997 (hardback), ISBN 9781788211000 (paperback), ISBN 9781788211017 (e-book). Price: hardback $90.00/£60.00; paperback and e-book $30.00/£19.99.

References

D'Arcy, C. / Gardiner, L. (2017): The generation of wealth: asset accumulation across and within cohorts. London: Resolution Foundation.

Kaas, L. / Kocharkov, G. / Preugschat, E. (2019): Wealth inequality and homeownership in Europe. In: Annals of Economics and Statistics, no. 136, 27–54. http://doi.org/10.15609/annaeconstat2009.136.0027

Wolff, E. (2013): The asset price meltdown, rising leverage, and the wealth of the middle class. In: Journal of Economic Issues, 47 (2). http://doi.org/10.2753/JEI0021-3624470205