HOME-OWNERSHIP AND FINANCE CAPITAL

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Since Engels' pioneering work on housing, the relationship between housing tenure and profit has remained largely unexplored.[1] Although there has been a revival of interest in housing, particularly with the emergence of a Marxist urban sociology,[2] and, even more promising, a Political Economy of Housing movement in England,[3] there has still only been marginal interest in the ways in which patterns of tenure relate to the deployment of capital and the exploitation of housing for profit. This is especially remarkable in the light of the radical changes which have been taking place in the tenure patterns of capitalist societies over the post-war period. The most outstanding feature of this has been the increasing trend to home-ownership. In Australia the home-ownership rate increased from 50 to almost 70 percent, and in Britain from less than 30 percent to over 50 percent. Furthermore, home-ownership is now the majority form of tenure in many countries, notably the U.S.A., Canada, New Zealand, Japan, Italy, Belgium and Israel, while trends show that home-ownership may soon constitute the majority form of tenure in France and a host of minor capitalist countries such as The Netherlands, Norway, Denmark and Austria.

Such major shifts in patterns of tenure are of the utmost importance to the extent and nature of capital exploitation of housing. Housing constitutes one of the most important investment markets in capitalist societies. Vast sums of money are tied up in residential property, and the potential for profit-making is enormous. In addition, the effect of changes in tenure patterns upon the cost-structure of ordinary families is radical and profound. Moving large numbers of working class households into home-ownership causes forced saving and major changes in life-time expenditure patterns which cannot fail to radically alter consumption priorities as well as values concerning housing.

The traditional explanation for the trend to home-ownership in many capitalist societies has been couched in terms of 'values'. It is argued that people inherently prefer owning to renting and that the trend to home-ownership reflects a market response to consumer demand.[4] It is certainly true that home-ownership involves highly emotive attributes, as reflected in the rhetoric of "The Great Australian Dream" and "A Property-owning Democracy". However, it will be argued here that to conceive of the trend to home-ownership in such simplistic terms is to entirely misunderstand the relationship of profit to tenure, though this is not to deny the political usefulness of the emotive appeal of home-ownership. The explanation rather involves the need for finance capital to maximise the size of its markets and to increase the rate at which these are exploited.

The starting point for any discussion of the relationship between tenure and capital is a clear understanding of the nature of profit-making in housing.[5] Basically, profit can be made out of housing in one of two ways: rent extracted by landlords and interest on loans extracted by finance institutions. A trend to home-ownership therefore involves a change in the predominant type of exploitation which may take place in housing, away from rent and towards interest. It is therefore clearly in the interests of finance capital that home-ownership be extended to as many households as possible, since this expands the demand for mortgages. Ordinary households are far less able to pay cash when buying houses than landlords who may use their existing profits to finance the growth of the stock of rental housing and who therefore collectively produce a smaller mortgage debt than homeowners.

However, home-ownership increases the demand for housing credit in another, and more significant way. The peculiar nature of home-ownership is that it involves the existence of a large and important market for non-new housing. In a rental market, and particularly in public rental housing, houses are generally bought only once — when they are first built. By contrast, in a home-ownership market house-sales are directly in proportion to residential mobility. That is, every time a household moves home, a house is bought and sold, and of course always at higher and higher prices. In order to understand the effect of this phenomenon on the market for housing credit it is necessary to explore the intimate relationship between profit-making and social inequality. As with all commodities in a capitalist society, social inequality is crucial to maximising profitability, and this is dramatically illustrated in the case of owner-occupied housing.

Census data shows a vast gap between those with abundant housing and those with acute shortage, ranging at the extremes from an average of 4.2 rooms for one-person households to an average of 6.3 rooms for ten-person households.[6] Conservative estimates of the number of individuals living in overcrowded conditions range from a third of a million to over one million.[7] At the same time the number of people living in 'under-crowded' conditions — i.e. with a surplus of housing — is estimated at between a third of a million and one and a half million.[8] The implication of this is that the housing shortage is due entirely to a maldistribution of housing resources rather than an absolute shortage or 'scarcity' of housing.

The reason for this can be seen in the effect of home-ownership upon the demand for housing. The poor and the young are either unable to afford to buy a home at all or are forced to buy inadequate accommodation. On the other hand the rich and the middle-aged are stimulated to buy more housing than they actually need. This is because home-ownership re-distributes the cost of housing so that it falls most heavily on the early years of the family cycle, and barely at all on the later years. This either prices the poor out of the owner-occupied market altogether or forces them to go short. This situation is aggravated because it is precisely in the early years that space is at a premium, when families are growing, while in the later years when the family contracts in numbers less space is needed.

For the purposes of this discussion the importance for profit-making of the maldistribution of housing resources lies in the way in which the rich are encouraged to consume more housing than they actually need. This is manifested in the phenomenon of 'trading up'. Let us assume a household buys a house for $10,000, with a mortgage of 75 percent. If house-prices double, a nominal 'capital gain' has been made of $10,000. Although the capital gain is nominal rather than real its importance for housing credit is considerable, since the effect of 'capital gains' is to reduce the relative cost of the mortgage. Thus, although the household originally had a $7,500 mortgage on a house costing $10,000, house-price inflation to $20,000 reduces this from a 75 percent to a 37.5 percent mortgage. This allows the householder to 'trade up' to a $40,000 house (which, of course, originally cost $20,000) by increasing the mortgage commitment from $7,500 to $30,000 (i.e. still at 75 percent mortgage) and adding the equity of about $10,000 (remaining after deducting legal fees, estate agent commission, stamp duty, etc.). In other words, in this case a doubling of house-prices has resulted in a quadrupled mortgage debt.

All of this vastly increases the potential market for housing finance. In fact, the market for mortgages on non-new houses is over twice the size of the market for newly-built houses. In 1976 about $3,500 millions worth of new loans were raised for the purchase of established dwellings as against about $1,500 millions for newly-built dwellings.[9] In other words about 66 percent of the total market for housing finance was in established homes: debts which under a non-profit rental system would be drastically lower, particularly in times of high house-price inflation. At current rates of interest of around 11 percent this means that the established home market in new loans only raised each year produces a profit of around $400 millions a year. If we add to this the total amount of loans outstanding on established dwellings the total amount of profit extracted is probably in the region of three or four thousand million dollars a year.

It is clear that home-ownership is an important source of profit for long-term finance capital. A very crude estimate of just how much of this profit is a result of home-ownership as a form of tenure may be obtained by calculating how much debt would exist if home-owners did not sell and buy homes from each other on moving, but simply exchanged the mortgages which were raised on the original building costs. This would give us an estimate of the size of the mortgage debt which would exist if the stock of owner-occupied houses were owned by a non-profit rental organisation. Using 1973 data, Hill provides a very rough estimate of the then current value of the owner-occupied housing stock of around $40 thousand millions.[10] (This is based on a house-price of $12,500, and at current prices the value of the owner-occupied stock is more likely to be over $100 thousand millions.) This means that the total finance institution debt on owner-occupier housing which Hill estimates at $10 thousand millions (at 1973 prices) represents an average debt per house of 25 percent of its current market value.

However, let us assume that houses were only mortgaged at their original building costs. Would the debt-load be significantly lower? In the first place, most houses built over twenty-five years ago or so would perpetually be debt-free. In fact, the average length of life of a mortgage is considerably less than the maximum since re-payment is commonly made early. Assuming an average mortgage length of fifteen years, this means that the only part of the stock still debt-encumbered in 1973 would be that built since 1958: that is, about a quarter of the total stock, which on Hill's estimate of the 1973 market value of the total stock gives a market value of $10 thousand millions. However, the original building costs of this post-1958 stock would be considerably less than its 1973 market value, probably averaging around $8,000 per house rather than $12,500. The original building costs of the debt-encumbered stock would therefore be around $7 thousand millions, which, assuming an average household equity of 25 percent, produces a total amount of loans outstanding of around $5 thousand millions.

Very roughly, then — and it is only the most crude estimate, the total debt-load produced by the sale of old houses at market rather than original prices doubles the debt-load on households as a whole in comparison with non-profit rental housing. Put another way, the debt-load on the average owner-occupied house is at least double original building costs.

The importance of home-ownership for maximising the exploitation of housing for profit is therefore clear. It now remains to examine the role of finance institutions in the exploitation of this market. Finance institutions have been the major beneficiaries of home-ownership in Australia since their role is that of a middleman between depositers and investors on the one hand and borrowers on the other. The increased size of the mortgage market which home-ownership produces is met largely from the savings account of households who are forced to save in order to obtain housing. A trend to home-ownership therefore increases the total amount in deposits which finance institutions can then re-lend at a higher rate of interest to home-buyers. The expanded market for home-loans is therefore matched by a larger volume of savings which finance institutions harness for increasing their profits. This is clearly shown in the fact that with one of the higher home-ownership rates in the capitalist world, Australia has the highest proportion of savings account per head of population than any other country.[11]

The increase in home-ownership in Australia during the post-war years occurred rapidly and in a short space of time. The home-ownership rate in 1947 was 52.6 percent, roughly the same as it had been twenty years earlier. In only fourteen years it rose by over 17 percent, reaching 63 percent by 1954 and nearly 70 percent by 1961. The crucial years of expansion of home-ownership were therefore during the 1950's. During the early part of the boom the outstanding advances made by the major lending institutions rose from £100 million in 1945 to £682 millions in 1956, representing an increase as a proportion of the national income from 7.9 percent to 15.8 percent.[12] Loans for established dwellings constituted almost half of this expanding market during the period, rising from £9.8 millions out of a total of £21.6 millions of new loans in 1946 to £65.3 millions out of a total of £150.1 millions in 1956. Expressed in Australian dollars, the amount outstanding to individuals for home-purchase rose from $185 millions in 1945 to an estimated $7,609 millions in 1972, an increase of around 4,000 percent over the post-war period.[13]

The increasing importance of the housing finance market in Australia during the post-war period benefited all types of finance institutions. In the ten years after 1946 the major trading banks almost trebled their housing advances, the building societies increased theirs five-fold and the life offices increased theirs by more than seven-fold. However, over the whole post-war period the two major lenders, the banks and building societies, have increasingly dominated the market, with their share of the market rising from about 0.5 percent to over 80 percent. Of these, the two institutions which benefited the most from the switch to home-ownership have been the savings banks (whose outstanding increased from $32 millions in 1945 to $2,392 millions in 1972, an increase of over 7,000 percent and a share of the market rising from 17 percent to 31 percent) and the permanent building societies (whose outstandings increased from $19 millions in 1945 to $1,701 millions in 1972, an increase of almost 9,000 percent and a share of the market rising from 10 percent to 22 percent).[14] Since then the banks and building societies have continued to extend their domination of the housing market, with the banks owning no less than 54.7 percent of all newly-raised mortgages in 1976, and the building societies owning 30.3 percent.[15]

However, the great growth area in the housing finance market has been in the savings banks, and particularly the privately-owned savings banks. Until the mid-1950's there were no privately-owned savings banks in existence and the savings bank business was entirely in the hands of Commonwealth and various State savings and trustee banks. The launching of savings bank subsidiaries by the major trading banks, and their phenomenal growth, therefore represents perhaps the single most important change in the structure of Australian housing finance during the post-war period: a change which coincided with the switch to home-ownership and the consequential expansion of both the new and non-new housing markets. Given the rapid expansion of the savings banks' investment in owner-occupied housing in the post-war period (rising, as we have seen, from a 17 percent to a 31 percent share of the market) the expansion of the private savings banks' housing interests was explosive. In the five years from 1955 to 1960 their share of total savings bank deposits grew from nil to 18 percent, then rising to 30 percent in 1965, 34 percent by 1970 and 37 percent by 1973.[16]

The increasing dominance of the banks — and particularly the private banks — in the housing finance market is in fact greater than these figures suggest, for two reasons. First, banks routinely lend to building societies, life offices, friendly societies and other institutions which then use the money to lend directly to households. This middleman role represents only a very small proportion of total bank housing finance, though it makes a noticeable impact upon the total balance of housing finance between the institutions, for example, increasing the savings banks' share of outstandings from 31 percent to 34 percent in 1973.

Second, and more important, the private trading banks lend directly through their ownership of finance corporation subsidiaries. Finance corporations are in fact the third largest of the private sector lenders for housing after banks and building societies, with a larger share of the market than the life offices. Furthermore, this type of finance is expensive and constitutes an increasingly important source of profit in housing. The short-term housing finance market will be considered further below. For the moment, we may note that the banks are the dominant institution in housing finance, with a share of the market, including indirect investments and subsidiaries, of something approaching two-thirds of all owner-occupier mortgages.

All of this concerns the private sector in its role in the financing of home-ownership. However, the private sector did not finance the expansion of home ownership without government aid. In fact one of the most important changes during the post-war period concerned the rise of government involvement in house-building, primarily for owner-occupation, but also for public rental housing. In 1946 War Service home-loans constituted only 1.9 percent of all finance, while government housing authorities made up a further 5.6 percent. However, by 1956 War Service home-loans constituted no less than 20 percent of all finance with government housing authorities providing a further 8.8 percent.[17] If we add to this both state and federal funds made available through the savings banks, together with the Home-builders' Account which provided funds to building and co-operative societies for home-loans, plus the fact that a large proportion (over half) of public rental housing finance was for the sale of homes, then it can be seen that the role of government in initiating the move to home-ownership in Australia was considerable and perhaps decisive.

Of the governmental finance of owner-occupation the most important was War Service loans under the Defence Services Homes Act at low interest rates and with long repayment times. In 1946 only some £400,000 was spent by the Federal Government on these loans, but this increased to over £30 millions in 1956 and to over $74 millions in 1972-73, at which time outstanding advances totalled almost $1,000 millions.[18] This, together with the very large scale on which Housing Commissions sold off stock into owner-occupation on roughly similar terms as War Service loans, constituted the principal thrust of government policy to increase home-ownership.

It is important to bear in mind the nature of governmental involvement in financing home-ownership. At the most general level it is, of course, a highly inequitous use of taxation revenue, representing a transfer of wealth from tenants to owners. More important, from the perspective of finance capital, it adds to the stock of owner-occupied housing so helping to swell the size of the mortgage market in established dwellings. Public funds for housing are overwhelmingly allocated to the construction of new housing as against the purchase of established stock. For example, in 1956 almost three-quarters of War Service loans were for new housing as against one one-third of major trading bank loans.[19] In the case of the Housing Commissions, loans to individuals to buy established or new public rental houses are all for first-time home-owner houses, and in 1976 $265.1 millions was allocated in loans representing 7.7 percent of loans for new additions to the owner-occupied stock.[20] All this compares with the various types of finance institutions for whom established houses comprise between two-thirds and three-quarters of total home-owner mortgage assets, ranging in 1976 from 66.2 percent of building society loans to 77.2 percent of finance company loans.[21]

The relationship between the government and finance capital in the housing market is therefore clear. Government policies to create new additions to the stock of owner-occupied dwellings, whether by building new houses or by selling rental stock to tenants, contribute significantly to the rate at which housing may be exploited for profit by finance institutions. Because public finance goes almost entirely on new additions to the home-owner stock of housing the increasingly important established dwellings market goes largely to private finance capital. More recently, the role of governments has been defensive — public housing programmes have not resulted in an increase in the owner-occupier stock. On the contrary, the proportion of home-owners has been declining at least for the last decade. Public intervention has therefore probably only helped to stem this decline, so maintaining as large a stock of owner-occupied housing as possible for finance capital to exploit.

So far the discussion has focused almost exclusively upon the role of long-term capital in the owner-occupier housing market, though the role of banks in indirectly providing medium and shorter-term finance for middlemen institutions to lend out for longer periods has been mentioned. However, besides such markets there also exist important short-term capital markets in housing. One of these — the provision of short-term capital for builders and contractors — is common to all forms of tenure dependent on credit in capitalist societies. However, there is an important market for short-term capital which is peculiar to home-ownership. This is the market for bridging finance, and for second and third mortgages. Such capital is high interest-earning because of the lower degree of security obtainable either when transferring property from one party to another or when being used as topping-off loans when the principle loans has the first call on any forced redemptions.

Unfortunately there is little systematic data on this type of capital in the Australian housing market. A considerable proportion is likely to be provided by finance corporations, which as already noted are often themselves owned by, or associated with, banks. However, there are also likely to be funds provided by solicitors and estate agents, as well as by private individuals, some of these loans carrying usurous rates of interest. Data from real estate mortgages lodged in Victoria shows that this type of credit accounted for no less than 26 percent of all mortgages lodged in 1955 and 36 percent in 1956.[22] Furthermore, as the cost of housing rises in relation to incomes this sort of credit is likely to have grown in recent years, perhaps quite dramatically.

Bridging loans and topping-off loans are not only a peculiarity of home-ownership as contrasted to non-profit public renting, but equally important, tend to bear more heavily on the poor who are more often forced by financial stringency to rely on such credit. The trend to home-ownership therefore can be seen as the major factor in the expansion of the short-term, low-security housing credit market, since increases in home-ownership rates are primarily achieved by extending home-ownership to medium-income earners.

This general picture enables us to make some observations on the role of home-ownership in Australian society both in terms of profit-making and in terms of housing costs. In no capitalist society has it proved possible to prevent the exploitation of housing for profit. Even in societies such as Sweden, where a large 'non-profit' rental sector has been established, funds for building must still be raised on the open market, and where interest rates are subsidised by governments this is done by using taxation revenue to compensate finance institutions for the lower housing costs paid by householders, so ensuring the continued profitability of housing to capital interest.

However, Australia has gone further than most societies in maximising the profitability of housing by its home-ownership policy.[23] By the same token home-ownership is therefore a <u>more expensive</u> form of tenure than non-profit renting. That is, the lifetime housing costs of owners will be greater than those of the tenants of a non-profit renting system to the extent that owners move and raise larger mortgages in order to do so, as well as obtain bridging loans and second mortgages and pay legal fees, estate agent commission and other costs of buying and selling. This is a somewhat startling conclusion to come to, particularly in view of the potent ideological backing which home-ownership gets in Australia.

For example, one of the ideological justifications of home-ownership is in the supposed 'capital gains' which may be made.[24] As indicated earlier, however, this is nominal rather than real: home-owner equity may be likened to any other form of non-productive capital, since it is effectively frozen in the house. This sort of capital can only be realised when property is owned which does not need to be lived in but can be used either to rent out or to sell and realise the capital for other than housing purposes. It then may become productive capital capable of generating further capital gains which can be realised and put to work. The capital investments of households in homes is, however, important in maximising mortgage capability, as discussed earlier. This individualised equity — in which each home-owner can manipulate capital and loans in housing — provides the crucial link between social inequality and profitability. By the same token the socialised equityin non-profit rental housing permits reductions in social inequality in proportion to this form of tenure's lower profitability compared to home-ownership.

The benefits of home-ownership therefore accrue not to ordinary households but rather to finance capital. It is therefore the profitability of housing that governs to a considerable extent the type of housing which will dominate in capitalist societies, rather than in 'values' or market preferences. This brings us back to the fact of the general trend towards home-ownership in capitalist societies, and we may conclude this discussion by considering some of the wider implications of tenure and profit.

It is clear that the pressures for increasing home-ownership in capitalist societies during the post-war period have been enormous and in most cases irresistable. The vested interests which stand to benefit from home-ownership are considerable, including not only finance capital, but also insurance companies, the legal profession, real estate agent interests, valuers, and other professional and entrepreneurial interests which are involved in the home-ownership business. It is less easy, however, to demonstrate that such interests have actively promoted home-ownership in Australia during the post-war period, since political and social reasons for increasing home-ownership have tended to predominate in what little public discussion there has been over this issue.[25]

However, even the predominance of 'non-profit' renting does not eliminate profit-making from housing but only restricts it. Therefore any success in preventing the extension of home-ownership at the expense of non-profit renting only represents a marginal — though not inconsiderable — reduction in the exploitation of housing for profit (and hence its costs to householders). At current rates of interest 25-year mortgages produce profit in the form of interest which amount to about three times the cost of the house. That is, as long as housing is paid for by means of loans, rather than by cash, housing will cost three times more than it needs to. Only Communist governments pay for housing with cash out of revenue though the principle of paying cash is well-established in all countries for government spending in general. If there is no likelihood of governments in capitalist societies moving away from home-ownership towards less expensive forms of housing such as non-profit renting then the possibilities of excluding the exploitation of housing for profit altogether by financing housing out of revenue are remote to say the least. Housing will always be an expensive commodity in capitalist societies. The need for profit makes this an unavoidable fact of life.

[1]Frederick Engels, The Housing Question (Martin Lawrence, London, 1887 [1872]). Although this contains a useful discussion of rent and profit, Engels was primarily concerned with arguing against the Proudhonist case for extending home-ownership and so is only of limited relevance to the modern context.

[2]See, for example, David Harvey, Social Justice and the City (Edward Arnold, London, 1973), C.G. Pickvance (ed.), Urban Sociology: Critical Essays (Tavistock, London, 1976), and M. Harloe (ed.), Captive Cities (Allen and Unwin, London, 1977).

[3]Political Economy of Housing Workshop, Political Economy and the Housing Question (London, 1975) and Michael Edwards, Fred Gray, Stephen Merret and Joseph Swann (eds.), Housing and Class in Britain (Political Economy of Housing Workshop of the Conference of Socialist Economists, London, 1976). Two recent articles which look at the financing of home-ownership in Britain and the U.S.A. are Martin Boddy, "Mortgaged Financed Owner-Occupation in Britain", Antipode, vol. 8, no. 1 (March 1976), pp. 15-24, and Michael E. Stone, "The Housing Crisis, Mortgage Lending and Class Struggle", Antipode, vol. 7, no. 2 (September 1975), pp. 22-37.

[4]David Donnison, "The Politics of Housing", The Australian Quarterly, vol. 48, no. 2 (June 1976), pp. 18-31, and Hugh Stretton, Housing and Government (Australian Broadcasting Commission, Sydney, 1974), ch. 1.

[5]This is discussed further in my "The Political Economy of Housing", Arena, no. 49 (1977), pp. 31-43.

[6]Ross King, The Dimensions of Housing Need in Australia, Ian Buchan Fell Project on Housing, Occasional Paper no. 3 (University of Sydney, Sydney, 1973), p. 3.

[7]Ibid., p. 6.

[8]Ibid.

[9]Australian Bureau of Statistics, Housing Finance for Owner Occupation (Canberra, 1977).

[10]M.R. Hill, "Housing Finance Institutions", p. 351, in R.R. Hirst and R.H. Wallace (eds.), The Australian Capital Market (Cheshire, Melbourne, 1974), pp. 332-365.

[11]M.K. Lewis and R.K. Wallace, "The Savings Banks", in ibid., pp. 246-331.

[12]M.R. Hill, Housing Finance in Australia: 1945-1956 (Melbourne University Press, Melbourne, 1959), p. 127.

[13]Hill, "Housing Finance Institutions", p. 334, Table 8.1.

[14]Ibid.

[15]Australian Bureau of Statistics, Housing Finance for Owner Occupation (Canberra, 1977). Although the share of the life offices and other lenders has declined as a proportion of total lending, their total mortgage assets have increased dramatically.

[16]Lewis and Wallace, op. cit., p. 258, Table 7.3. The share of the private savings banks continue to rise since their share of the total savings increment in the early 1970's was around 45 percent (ibid., p. 260).

[17]Hill, Housing Finance in Australia, calculated from the statistical appendix.

[18]Australian Bureau of Statistics, Official Year Book of Australia 1974, no. 60 (Canberra, 1975), pp. 226-228.

[19]Hill, Housing Finance in Australia, statistical appendix.

[20]Housing Finance for Owner Occupation.

[21]Ibid.

[22]Hill, Housing Finance in Australia, pp. 124-135.

[23]Besides directly encouraging home-ownership this has been achieved by severely limiting the size of the public non-profit rental sector so as to force as many households as possible into home-ownership. This is discussed further in my "Public Housing and Forced Home-Ownership" (lithograph)(University of Adelaide, 1977).

[24]Two recent and detailed studied which calculate 'capital gains' to home-owners when comparing the cost of owning with renting are Stewart Lansley and Guy

Fiegehen, "'One Nation' Housing and Conservative Policy", Fabian Tract 432 (September 1974), and S.N. Tucker and W.D. Woodhead, "Economic Aspects in the Choice of a Home", Proceedings of the Fifth Australian Building Research Congress (Melbourne 1975). However, I have calculated that only about 1 percent of the total owner-occupier equity is realised capital gains in any one year. "Capital Gains from Home-ownership: A Total Housing Stock Approach" (lithograph) (University of Adelaide, june 1978).

[25]For a discussion of this see my "The Ideology of Home Ownership", Arena, no. 46 (1977), pp. 81-89, and "A Political Sociology of Home Ownership in Australia", The Australian and New Zealand Journal of Sociology, vol. 13, no. 1 (February 1977), pp. 47-52.