Round the houses: homeownership and failures of asset-based welfare in the UK

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Introduction

Housing, growth and crisis in Anglo-America

A considerable amount of literature has been published on the role of housing, particularly in Anglo-America, in facilitating and triggering the recent financial crisis. There is general agreement that housing, via mortgage lending, was the main vehicle for integrating households (or household sector) into a rapidly expanding financial markets. Whether the housing-finance nexus is part of a recognizable Anglo-liberal growth model or compares to other Varieties of Residential Capitalism, it generally understood that housing drove growth and was meant to serve a welfare function. Similarly, it is widely acknowledged that this system was inherently unsustainable because housing cannot simultaneously promote growth and provide welfare, which becomes evident only at the point at which the financial crisis begins.

Taking a long-term view of the Anglo-American growth model sees its gradual emergence over the past twenty years. It has been described as *privatized Keynesianism* because it creates economic stability, effective demand and welfare provision through housing and capital markets rather than through employment and production (Crouch 2009). Alternatively, as ‘finance-led growth’ because easy credit offered households led to asset-based wealth gains in the form of housing and portfolio investments to compensate for income loss due to stagnating wage growth (Boyer 2000). Or, more recently, the period of boom and bubble as exemplifying the ‘Anglo-liberal’ growth model that relied on consumer-led growth financed with private debt, but also supported by high levels of public expenditure (Hay 2011). This framework develops out of earlier attempts to conceptualize a recognizable ‘growth-model’ as a way of understanding the origins of the 1970s economic downturn, or the crisis of

American Fordism, in terms of a capitalist mode of regulation. The aim is to capture the changing configurations of economic and extra economic institutions and practices that secure a certain stability and predictability in capitalist accumulation over time (Jessop & Sum, 2006: 4). Doing so requires a conceptual framework for evaluating the 'totality of institutional forms, networks, and norms (explicit or implicit), which together secure the compatibility of typical modes of conduct in the context of an accumulation regime, corresponding as much as the changing balance of social relations as to their more general conflictual properties' (Lipietz, 1988: 30).

Therefore, the current growth model is understood relative to what came before, namely it emerges from the unraveling Fordist compromise between capital and labour (Crouch, 2009: 384), and strategic transformation in finance as a response to the difficulties encountered with the advent of neoliberalism (Dymski, 2009: 150). Over time labour has become incorporated into capital in entirely new ways, not just via the workplace discipline but through financial processes: labour is not just producing surplus value as labouring class labour is now an asset class, an object of portfolio investment—like equities, bonds and credit derivatives (Bryan and Rafferty, 2011: 215-16). The increasing implication of labour into the mechanisms of finance was further bolstered by stagnant income growth and increasing supply of credit to households (Mongtomerie, 2009). Indeed, access to credit became essential to economic expansion. Residential housing became the main mediating mechanism between increasing inequalities and rising profits; the growing gap between flat incomes and rising housing prices was filled by debt and ever-growing leverage. The most prescient example was the expansion of consumer finance to formerly excluded groups (minorities and low income households) via subprime loans which does not merely represent a novel welfare strategy, but a new frontier in the exploitation of labour (Lapavitsas, 2009). Indeed it was when these 'financially fragile' group of homeowners failed to keep up the repayments, which constituted the income streams of MBS, the entire 'housing-price/credit-pyramid' began to unravel, triggering the global credit crunch (Ibid, Bryan & Rafferty, 2011: 216).

When we move from evaluating long-term transformations in the labour-capital compromise to considering the more recent mid-1990s boom, the post-2001 bubble and how it relates to the 2007 bust, then closer attention is paid to specific political-institutional configurations that consolidated and, ultimately, undermined the Anglo-American growth model. More specifically the post-2001 period of low inflation, low interest rates and excess liquidity combined with an expansionary fiscal policy to fund wars in Afghanistan and Iraq caused rapidly rising asset prices, across all asset classes but in this case we are more concerned with residential property prices. This economic environment was conducive to the expansion of

private debt financed consumption, much of which was secured against a rising property market. As a 'policy corollary', rather than a planned outcome, this dynamic underpinned the emerging agenda of asset-based welfare, substituting, at least partly, public welfare with asset-accumulation, placing demands on individuals to take care of their own future (Hay 2010: 7). In the context of rising property prices housing took on an increasingly central position as the main object of private investment, to be tapped to finance consumption, and to be relied on as an asset ensuring future welfare. As a result, it was housing finance, specifically equity release, that underpinned the sustained period of 'personal debt-financed consumer-led economic growth' in the UK since 1992 (Hay, 2009: 470).

A key element of the Anglo-American growth model is the advent of asset-based welfare. Proponents of asset-based welfare see it as key to promoting equality by eliminating vulnerable households historical dependence on income through greater (and later more diversified) levels of asset ownership. As such asset-based welfare initiatives seek to replace public-funded cash welfare programmes with benefits that contribute to asset accumulation and are financed through indirect methods, such as credit subsidies and tax deductions; or as Michael Sherraden (1991) clearly explains that income redistribution ‘only maintains consumption’ whereas assets ‘change the way people think and interact in the world ... incomes feed people’s stomachs, assets change their heads’ (Sherraden 1991: 6). Importantly, these objectives complement reform efforts replace income measures of equality and welfare with consumption levels, because this is the variable that really matters (Ragan 2010, pp. 12). The new ‘consumer welfare’ paradigm claims the redistribution of living standards as more important than the redistribution of income (Krueger and Perri 2006). Household consumption becomes a key benchmark for assessing material well-being and a proxy measure of living standards; as such access to credit becomes an important redistributive tool (Wilkinson 2009).

In the United States, asset-based welfare seeks to enable households to provide their own financial security by investing in portfolio funds and/or property markets, largely through tax deductions on home loans and portfolio investments. Households can access a combination of up-front tax deductions for portfolio investments contributions, years of tax-deferred growth, and eventual taxation at relatively low rates (such as during retirement). Tax deductions are also available for interest paid on debts secured by a principal residence or a second home, the first $1 million of debt used to acquire, construct or substantially improve a residence, as well as the first $100,000 of home equity debt, regardless of its purpose. Also, when selling property, $250,000 ($500,000 for a married couple) can be excluded from capital gains, provided the owner used it as a primary residence for two of the five years prior to sale.

In the United Kingdom earliest conception of asset-based welfare were first articulated in the 1980s Right-to-Buy initiative, in which social housing tenants were given the option of buying their homes at discounted rates. This programme sought to change the aspirations of individuals dependent on the state for housing by giving them the option of acquiring housing wealth. What begins as a single government programme of the Thatcher government became the distinct and significant aspect of New Labour government (1997-2010) welfare policy—the emphasis upon asset-based forms of welfare (Prabhakar 2008). Finlayson (2009) argues New Labour's conceptualized social justice as the abolition of impediments to inclusion within the labour market and by doing so reinvented the justification for interventionist government in welfare provision. As such, direct income transfers and social protection measures were replaced with tax credits and efforts to integrate individuals within the mainstream labour market by reforming benefits so as to 'make work pay' and develop social policies to develop individual and communal values, perceptions, aspirations and attitudes (Finlayson 2009, Lister 2003). Economic Secretary Ivan Lewis explained in a speech to the Financial Services Conference, 'Asset based welfare is vital to Britain's long term success—to our continued realization of social justice and economic progress in the 21st century' (Lewis 2005). Asset-based welfare policies do not have as their primary goal the redistribution of wealth but rather the incorporation of individuals within the mainstream financial system (see Regan and Paxton 2003).
According to Finlayson (2009), the asset-based welfare developed under New Labour sought to reinvent intervention on the basis of targeting individual aspirations in order to connect people to mainstream markets and conceiving this as the core achievement of social justice; this was achieved by inculcating financial literacy and shifting attitudes towards money from an old-fashioned focus on wages, cash and short-term expenditure towards a new-economy focus on wealth and assets, savings and investments for the long term, which cultivates a certain kind of ethos or orientation towards finance and towards the self.

There are important parallels between these analyses of asset-based welfare policy objectives and the extensive work of Paul Langley on the transformative effects of neoliberal 'governmentality' on Anglo-American savings and borrowing practices. Here, the emphasis is on the discursive and calculative practices that have underpinned such processes (2006: 284): in particular how the expansion of consumer finance and mortgage lending was brought about by innovations in calculative techniques, such as risk pricing, which appeared to 'break down and communicate uncertainties as risks' in a seemingly scientific and rational manner (2008: 234). Entrenching individuals into process of financial calculation, in addition to

perpetuating inequalities, has transformed the role and perception of the house from a home or shelter to an 'asset that will grow to realise returns' in the future (Ibid: 243; Smith, 2008). In contrast to growth model framework that stresses the role of 'asset-based welfare' as one of the principal corollaries of the housing bubble; Langley (2007) is concerned with the disciplining effects housing as an object of financial investment where the financialisation of home-ownership constitutes a cultural transformation privileging the self-disciplining investor subject (70-75). Nevertheless, the outcome for the neoliberal investor subject and the subprime subject are the same as for the growth model as a whole: the sub-prime crisis which triggered the global crunch represent the moment when the tension between the new risk technologies, on the one hand, and their incapacity to capture the uncertain future, on the other hand, came to light, unravelling the network of sub-prime lending, which had underpinned the Anglo-American economy (Langley 2008a: 241-2; 2008b: 469).

Whether seen through peformativity or policy lens, promoting homeownership as an asset that can provide sufficient social protection and long-term wealth is considered a key element to understanding the causes and implications of the recent financial crisis. In terms of the Anglo-American growth model, it emerged from the particular relationship between monetary policy, the housing market and aggregate domestic demand which also constitutes its primary structural weakness: when interest rates began to increase under the inflationary pressure of rising oil prices, mortgage payments rose as well, reducing disposable income and dragging down aggregate demand in the economy and the housing market (Hay, 2010: 16). When the credit crunch ensured in response to rising default rates on US subprime mortgages the highly financialized Anglo-American growth model could not withstand even a temporary disruption in the availability of cheap credit: the highly leveraged banking system was vulnerable to shocks from the international credit markets and, in turn, effected housing markets because price inflation could not be maintained when lending stalled (Watson, 2009: 41). Therefore, the financial crisis reveals that having housing as a principal driver of economic growth, underpinning its financial integration in the global economy, whilst simultaneously relying on housing to buttress the transformation from public to asset-based welfare was fundamentally unsustainable. But, it is only when interest rise and inflationary pressure emerge that housing growth appears to become unviable, at this point housing cannot provide its welfare function, act as a motor of domestic growth and, in turn, be functional element of the global economy.

A similar conclusion is reached in the Varieties of Residential Capitalism (VoRC) literature which seeks to evaluate how housing shapes national politics and international financial dynamics through particular institutional configurations (Seabrooke and Schwartz, 2008;

Watson, 2009; 2010). VoRC investigates the modalities through which different systems of housing finance shape socio-political behaviour by evaluating the interplay between ownership rates and financial liberalisation/repression: the former impacts on pensions systems and the general welfare state, whilst the latter has implications for the overall working of the economy, social stratification, and everyday perceptions of housing (Seabrooke & Schwartz 2008: 238). This framework follows Esping-Andersen's (1990) initial outline of the American liberal welfare state regime, which only focused highlights inter-linkages between employment policy, labour markets and the welfare system, to include housing, which echoes Castles (1997) notion of the 'really big trade-off' between homeownership and welfare provision. By making the 'home' simultaneously a dwelling, a store of wealth and a reserve of cash (equity withdrawal) it could redistribute wealth over the life-cycle and smooth consumption over time; and, as such, mimic many of the primary functions of the liberal welfare state (Kemeny 2005). Also, homeowners are more sensitive to tax increases than renters; thus promoting homeownership puts significant political limits on welfare spending creating 'a new conservative politics' where households are hostile to tax increases to fund state services (Schwartz 2008). The politically powerful 'low tax' constituency in the US remains resolute in defence of these deductions, despite their link with housing/financial crisis and in the face of on-going fiscal deficits. Continuing to support these tax breaks will no doubt exacerbate welfare retrenchment by starving the government of tax revenues.

The analytical focus on ownership rates and financial liberalisation allows the VoRC approach to conceptualize the role of housing in facilitating the financial crisis. Namely through the interplay of financial deregulation and the erosion of domestic welfare which, in turn, increased the reliance on housing as welfare substitute (Schwartz, 2012). Here, the epicentre and trigger of the financial crisis is the US, where the concomitant withdrawal of the state from public welfare provision and the process financial deregulation – as form of macro-level welfare, protecting banks from each other – has not only made home ownership a principal object of individual welfare strategies, but has also led to the diffusion of financial risk, in form of financial products such as mortgage backed securities (MBS), to all financial sectors and actors, regardless of maturity matches. This combination of increased reliance on housing as a welfare investment on the one hand, and as a never ending source of recyclable financial capital on the other, is understood to have created a bubble, which burst when greed (and demand) led to a 'race to the bottom in terms of borrower quality' (Ibid: 54). Ultimately, then, the conditions for the crisis were created in the US with the sheer size of housing debt,

including subprime mortgages, and the consequent diffusion of risk to the entire financial system.

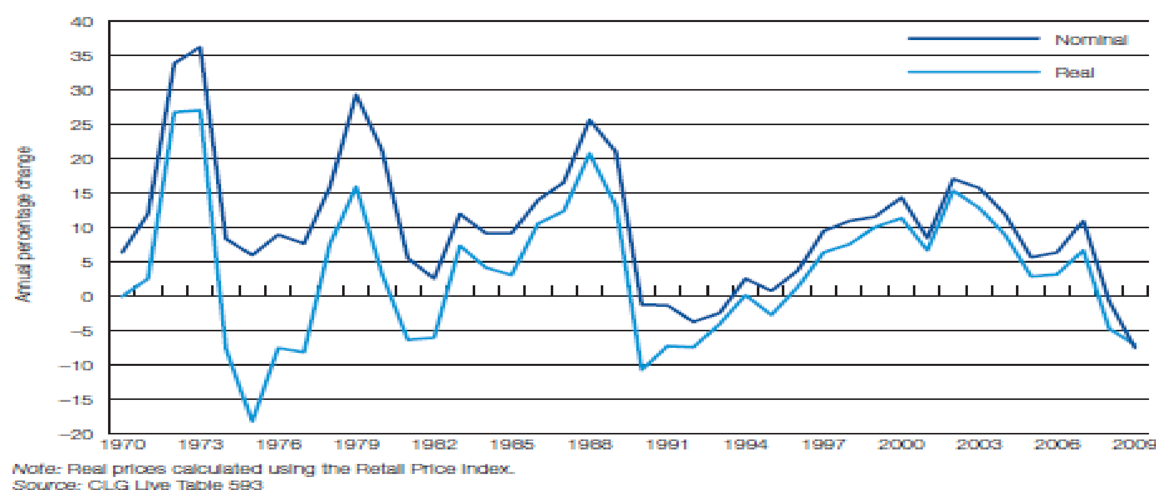
Limits of housing to promote growth

Drawing together the key claims of the Anglo-American growth model and welfare regime analyses, also including Paul Langley's cultural economy analyses of housing finance and modern investor-subject, there is a remarkable continuity in the acknowledgement of the primary role residential property played in facilitating the credit/asset bubble from 2001-2007. Moreover, there is widespread agreement that housing is an unsustainable way of promoting either macroeconomic growth or welfare. The failures of the housing market are made evident by the financial crisis, either because the rising default rates in mortgage markets triggered the credit crunch or because the subsequent decline in house prices enabled the 'balance sheet recession' as household sought to cut back on spending to compensate for years of debt-led spending, or both. While these are certainly accurate conclusions to draw from the current evidence, it still leaves the key question of the role that housing plays in a growth model or welfare provisioning unanswered because the conclusion renders housing no more than a functional mechanism that brought about an inevitable financial crisis. In this section, we foreground the key limitations of housing to promote growth and provide welfare and, in do so, we consider how the financial bubble and crisis exacerbated the limitations of housing (not the other way around).

Over the past 40 years, the UK housing market has been characterised by persistent price instability, or rapid fluctuations in house prices. Of course, housing market fluctuations can be found in other countries, but the UK does have one of the most persistently volatile housing markets, experiencing four major boom and bust cycles since the 1970s (see figure 1). These cycles make it difficult for households to generate wealth from housing because whether one buys in the upswing or downswing is impossible to know; moreover volatility increases risk of widespread mortgage arrears and rising repossession rates. Volatility makes timing important because those that bought into the housing market during the boom only to have the market collapse, were much more likely to have their home equity completely wiped out (JCHS 2010, pp. 12). Yet the timing of entry and exit into the property market is the factor many households have least control over. In the two most recent property market downswings involved falls in the nominal (cash) as well as the real (inflation-adjusted) value of houses. Because mortgage debt is fixed in nominal terms, house prices falling on this measure is particularly damaging as it can cause home-owners to fall into negative equity. Price fluctuations have the knock-on effect of promoting speculative fluctuations in house building as developers, as we saw in Ireland and the United States, will borrow heavily in

anticipation of further increases in prices only to go bankrupt when the housing market stalls. Although home-owners are most exposed to problems arising from price volatility, private renting households are also affected: for instance, in the UK buy-to-let properties were repossessed by lenders at an almost identical rate to owner-occupied properties in the period from 2007 to 2009 (Stephens 2011). Of course these outcomes fit nicely within standard economic understandings of the perils of inflation to distort prices and signals where it is widely acknowledge that inflation inhibits agent's ability to recognize relative price changes effecting production, consumption and borrowing decisions which hinder the efficient resource allocation (Taylor 1993); also, how high inflation creates yet higher inflation rates as 'expectations' lead individuals and firms to divert resources from productive uses in anticipation of inflation increases which, ultimately, hinders economic growth (Sargent 1999, ch.1); therefore, the role of government and monetary policy is to ensure the price mechanism functions efficiently as the coordinator of economic activities (Blank 2000; Goodfriend 2002). What is interesting is the degree to which these established principles are summarily ignored when governing house price inflation.

Table 1: UK house price inflation 1970-2009



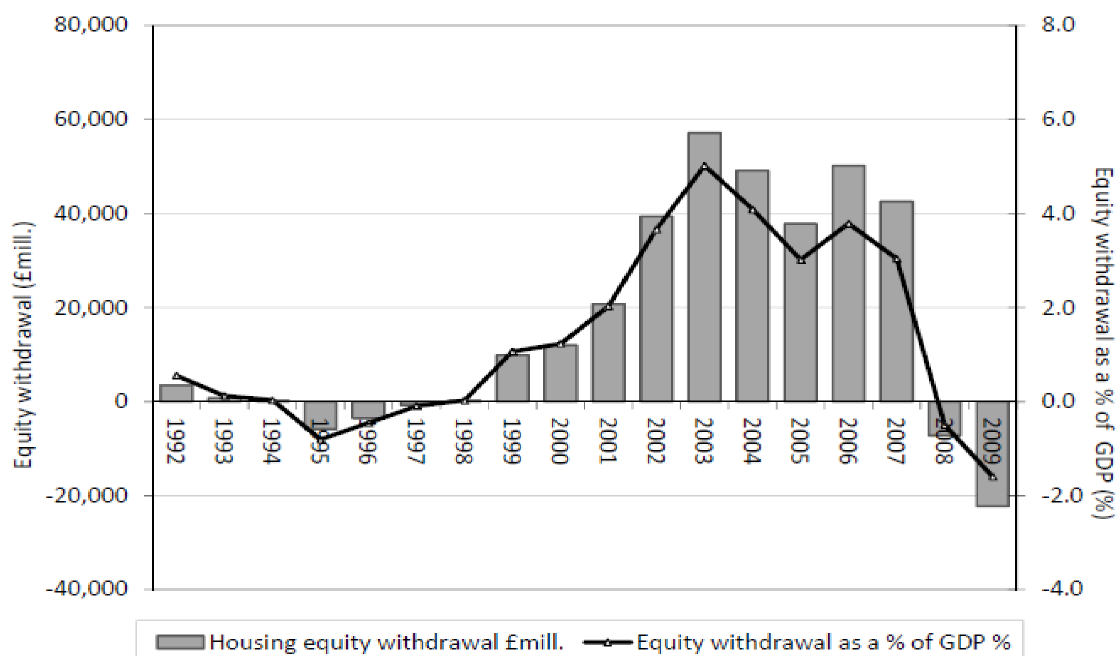
Note: Real prices calculated using the Retail Price Index.
Source: CLG Live Table 593

Table one illustrates the four major boom and bust cycles in the UK housing market since 1970s. As we can see by the divergence between nominal (top line) and real (bottom line) price changes is more pronounced in the 1970s and narrows from the mid-1990s onward, which is a result of the coordinated efforts to control consumer price (or retail price) inflation measures. Therefore, controlling consumer prices moderates the perceived economic impact of asset-price inflation but does, or cannot, lessen the inflationary pressures themselves. Therefore, while the Bank of England and successive UK governments have claimed to be steadfast in their commitment to price stability: it is clear that not all forms of inflation are treated equally. Colin Hay (2009) explains the different perspectives on inflation during the

post-2001 bubble as 'retail price inflation bad, house price inflation good' (461) where New Labour was able to reconcile competing commitments to non-inflationary growth in the midst of an asset-price bubble. In practice, this meant allowing asset-price inflation to increase unchecked while fiercely guarding against wage inflation.

One of the major consequences of unchecked house price inflation was households growing use of housing equity withdrawal. In the face of minimal wage growth (bad inflation) access to credit became essential for households to expand which, in turn, stokes inflationary pressures in property markets. Seeing an increase in the 'paper' value of housing wealth meant that households were able to borrow, consume, and invest more. This is evident in the degree to which house price inflation influenced economic growth. Figure 2 compares the total stock of home equity debt to its percentage as a total of national income measure of GDP. In this case home equity withdrawal (HEW) is the Bank of England's modest measure of home equity loans which excludes all loans for home improvement and transaction costs (rather than more measure all loans secured against the primary residence not including the primary residential mortgage) which relies on accurate reporting of the purpose of loans, which are notoriously inaccurate. Even so this modest measure shows that from 2002-07 HEW accounts for 4% or more of GDP, this means that "there was very little increase in national wealth over this period if we exclude the HEW" (Froud et al. 2011: 24)

Figure 2: UK housing equity withdrawal compared to GDP



Source: Froud et al. 2011

The central problem of home equity withdrawal as part of a growth strategy is that it converts households stocks of assets into stocks of debt in the upswing, which in turn precipitates a balance sheet recession in the downswing. The overall implications of home equity withdrawal on the household balance sheet are not widely considered. In part this is because household debt is usually ranked in terms of risk profile, which is determined wholly by its nominal interest rate. At the top of the hierarchy is loans secured against property (mortgages or home equity loans) because they are linked to an appreciating asset and the interest rates are lowest; auto loans are linked to a depreciating asset with higher interest rates; unsecured loans (credit cards and other forms of consumer lending) are not linked to an asset and have higher interest rates; education loans are depicted as borrowing to invest in an 'intangible' asset but are in fact non-revolving consumer loans; and at the bottom of the hierarchy is subprime lending (pay day or cash advance loans) which is high-cost and largely unregulated. Ranking debt instruments in this way enables an understanding of home equity loans as either a source of investment, i.e. borrowing to make home repairs or improvements, or as a rational means of re-allocating resources, i.e. take out a lower cost home equity loan to pay off higher cost consumer loans. Borrowing against the equity stake in a home in order to make improvements might be sound if housing prices were stable. As we saw in the last housing bubble, a home equity loan could be taken out to invest in home improvements but property price inflation meant that house prices would increase regardless of the level of investment in improvements. Again, house price inflation distorts gains in housing wealth because the cost of the loan would need to be less than the total increase in the value, minus the house price inflation rate. It seems more likely that households would borrow to make home improvements and borrow again when house prices inevitably went up again (regardless of the repairs or improvements made).

Using home equity loans to rationally re-allocate debt instruments from high cost to lower cost debt seems plausible, but it ignores the equally plausible scenario of accelerating indebtedness as other high-cost credit sources balloon because debt consolidation does not alleviate the underlying strain on household budgets. For instance, we know that in the US, homeowners cashed out an astounding $1.2 trillion when refinancing prime conventional first-lien mortgages between 2003 and 2007 (JCHS 2010, pp. 30). Some of these funds went directly to retire credit card and other nonmortgage debt, and some substituted for auto loans and other forms of consumer borrowing that might have otherwise occurred. Another interesting example is credit card debt: for the three major US credit card issuers, 58 percent of all receivables are over five years old (Froud *et al.* 2010, pp. 157), suggesting that households use very expensive forms of debt for long-term borrowing rather than short-term

cash flow management or big-ticket purchases; more problematically, borrowers are not paying off their debts. This suggests significant diminishing returns when transferring between debt instruments that are not adequately considered, especially if households are taking on lower quality, higher cost debt simply to stay afloat.

Therefore the significant downside of relying on housing to drive economic growth is the degree to which it can easily facilitate ever-larger increases in household debt levels, especially when combined with unchecked price volatility. In the case of the UK, rising property prices (good inflation) combined with slow wage growth (bad inflation) to create growing household indebtedness. Many households either had to borrower ever larger multiples of income to purchase ever more expensive housing or leveraged their existing equity stake, through home equity withdrawal, against speculative inflationary gains. The resulting debt overhang has completely hamstrung policy makers by solidifying the low-interest rate bias. Initially low interest rates were seen as the pay off for low (consumer price) inflation, which was supposed to spur investment and, ultimately, employment. In reality, it destroyed domestic savings rates and fuelled a credit bubble. Now a deeply indebted household sector (but also private sector and government sector debt) has made keeping interest rates low the only politically and economically viable policy. Yet, if fiscal levers are already discounted as policy tools then the low interest rate bias effectively eliminates the monetary policy lever as well. With no levers to pull than economic growth is effectively rudderless.

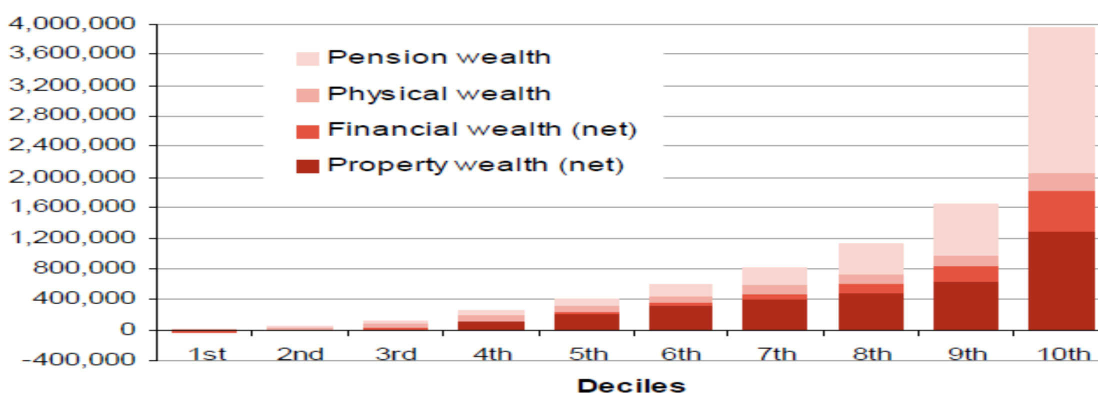
The limits of housings welfare function

The welfare function of housing is understood as the ability of a 'home' to simultaneously act a dwelling, a store of wealth and a reserve of cash (equity withdrawal) which can redistribute wealth over the life-cycle and smooth consumption over time; and, as such, mimic many of the primary functions of the liberal welfare state (Kemeny 2005). The liberal regime is based on the notion of promoting economic growth through employment and private welfare provision; ideally, the state only interferes to ameliorate poverty and provide for basic needs, largely on a means-tested basis (Ferragina and Seeleib-Kaiser 2011). These principles are echoed in asset-based welfare initiatives in which housing would provide a store of wealth necessary to promote equality and transcend households' dependence on income (either wages or government transfers). Of course these claims have largely discredited as a result of the 2001-2007 credit-asset bubble and subsequent financial crisis. Yet, what remains unclear is whether it is the housing market itself or its role in the boom, bubble and bust that ultimately undermines its ability to provide a welfare function. This

section outlines key ways in which the UK housing market is fundamentally unable to provide welfare.

Firstly, homeownership in the UK, like most forms of wealth, is distributed unequally which limits its ability to provide welfare, in the liberal sense. Moreover, this inequality also means that homeownership cannot provide universal benefits in the way it is envisioned by the asset-based welfare policy paradigm. Figure 3 is from the Wealth in Great Britain Report (2009) shows the distribution of wealth by decile and clearly highlights huge inequalities between the bottom deciles and the very top decile. The wealthiest 10 per cent of households were 2.4 times more wealthy than the second wealthiest 10 per cent, and 4.8 times wealthier than the bottom 50 per cent (the bottom five deciles combined): "In 2006/08, the least wealthy half of households in Great Britain had 9 per cent of the total wealth (including private pension provision wealth), while the wealthiest half of households had 91 per cent of the total … the wealthiest 20 per cent of households had 62 per cent of the total wealth including private pension wealth"(ONS, 2009:). The National Equality Panel (2010) used the same data to make the point that the top 10 per cent of the population are 100 times more wealthy than the bottom 10 per cent.

Figure 3: Breakdown of aggregate wealth by deciles and components

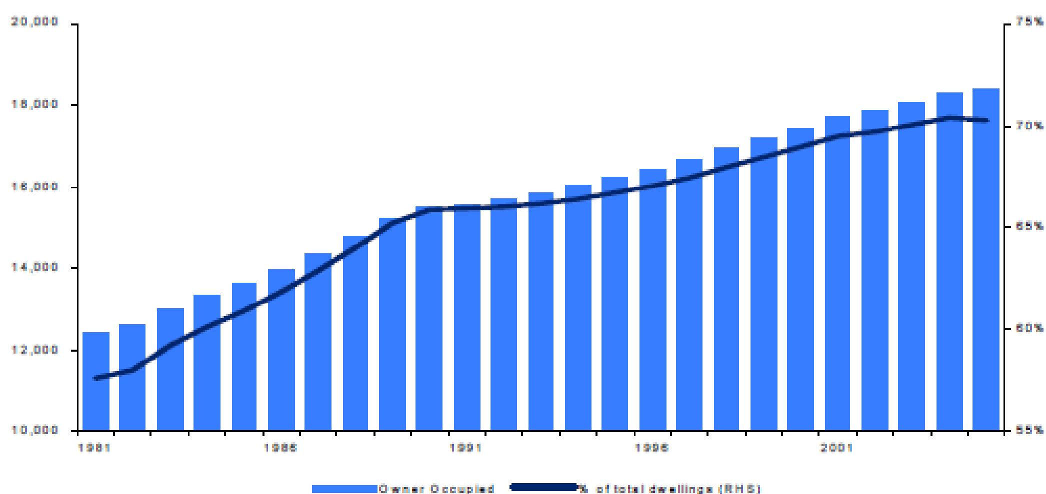


Looking just at housing wealth (the bottom and darkest) component of overall wealth holdings we see that the first three deciles have virtually no housing wealth, the entire bottom half of the distribution has only meagre housing wealth holdings compared to the overall population. Therefore, if housing wealth is overwhelmingly held at the top end of the

distribution then asset-based welfare is simply for the already wealthy sections of the population.

Importantly, levels of homeownership have not grown significantly as a result of asset-based welfare or the cheap credit conditions of the boom, bubble and bust. As we see in figure 4, the most pronounced growth in homeownership rates was from 1981-1991: from 60 per cent to 67 per cent then it levels off and grows very slowly over the next 14 years from 67 per cent to it height of 72 percent in 2005. By 2008, 68 per cent of the UK population owned their own home (30 per cent owned their home outright and 38 per cent of owner-occupiers had a mortgage). A small minority of UK citizens, 6 per cent, owned more than one property in the UK: around one owner-occupier in 10 owned more than one property (ONS, 2009). If homeownership rates are not growing and, therefore not spreading in any meaningful way to previously non-owner occupiers, and housing wealth is so significantly unevenly distribution then it does not, and cannot, provide a welfare function in a liberal welfare regime.

Figure 4: Homeownership in the UK, 1981-2005



Source: DCLG

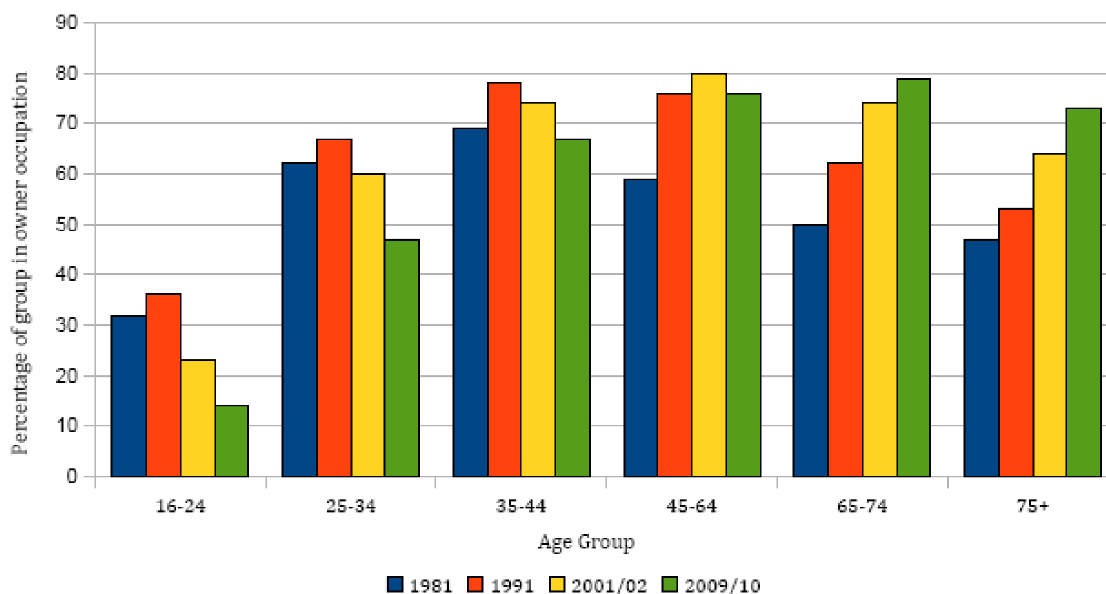
(As cited in Williams 2007)

Of course the severe limitations of promoting homeownership were evident in the spectacular failures of subprime mortgage lending in the United States.

Perhaps homeownership does not provide welfare in the liberal sense; instead it provides a universal-type benefit to middle and upper-income groups to provide cash reserves over the life-cycle and a stock of wealth in retirement. In this case, housing can provide a welfare function in retirement as a hedge against the relatively meagre liberal welfare regime public pension system. This assumption is also highly contentious, and unlikely, because homeownership has only translated into significant wealth gains for particular age cohort that

bought into the housing market at specific times. Table 5 shows that since 1991, homeownership in England has fallen most strongly among the youngest age groups, but also among people aged 35–44 at the same time as ownership continued to rise sharply among the older age groups, reflecting the growth in access to this form of tenure in the past. Therefore, despite the stalling of the growth of homeownership at the aggregate national level older generations have continued to see an upward march in homeownership, whilst for younger groups a steady decline in rates of owner-occupation. This intergenerational disparity is a result of one age cohort having access to specific favourable economic and political conditions. More specifically, the older demographic groups benefited from the post-war boom in house building and the Right to Buy policy of the 1980s: both gave a powerful downward push to house prices and an ability for middle and lower income groups to purchase their own homes. These two phases led to the highest levels of growth in homeownership rates. In the earlier post-war period, those in privately rented accommodation on middle incomes were increasingly able to move into owner-occupation, whilst in the latter period during the 1980s this shift was added to by a decline in the social housing sector and the uptake of home ownership by lower income groups. As this demographic hump of the 'baby boomers' passes into retirement, and older generations with much larger numbers of people in the social rented sector die, retirement will increasingly be dominated by owner-occupiers.

Table 5: England: Owner occupation by age group 1981-2010

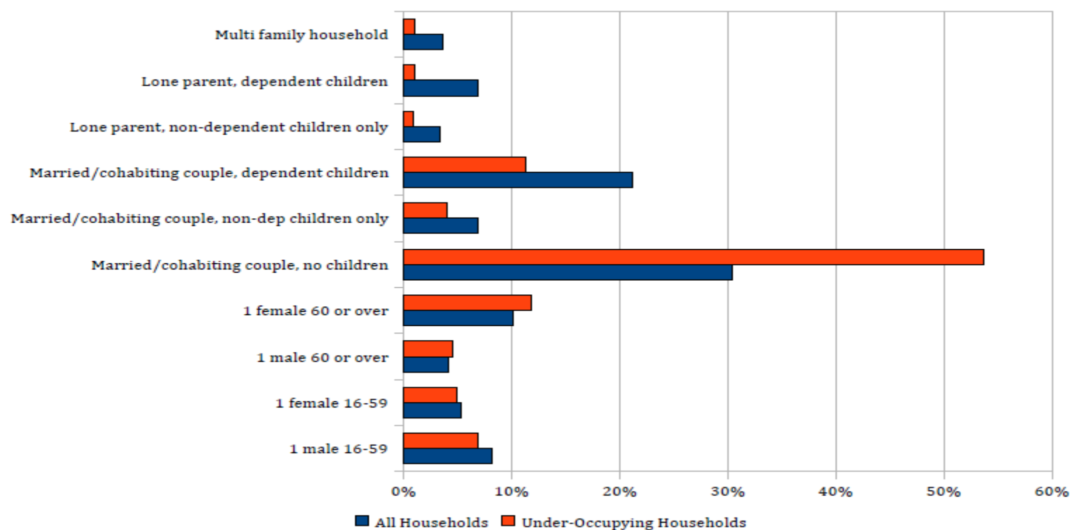


Source: English Housing Survey

Such pronounced intergenerational disparity clearly shows that the welfare function of homeownership is only available to a very specific age group that were at the right age at the right

time to take advantage of affordable homeownership. This age cohort is holding on to their family home in attempt to maintain a pot of wealth to delay dependence on pension income. As a result, older households are effectively holding on to their family homes long after they have need for them and well into retirement. In effect childless couples or older single-people are still occupying their family home (under-occupation of housing) while young and growing families are over-occupying their housing. This is the worst combination of the affordability trap meeting the insufficient pension system. Figure 6 illustrates the huge disparities in room occupancy levels across family types which relates to distribution of age cohorts in the UK. According this report by the Intergenerational Foundation (2012) the percentage of single--person households under--occupying their dwelling rose from 43% in 2003 to 57% in 2008; while the greatest need for *more* bedrooms is concentrated in the households which currently have one, two or three bedrooms needing an additional bedroom and the *excess* of bedrooms is amongst households who currently have three bedrooms but only require one (p.17-19). In short, those households which are suffering most from over-crowding are growing families in smaller properties, whilst an expanding new older demographic of single people or couples is holding more housing space than it needs.

Figure 6 Household Type and under-occupancy



(*Source: Survey of English Housing, three year average 2005/6–2007/8*)