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THE AMERICAN DREAM BY DEFAULT?

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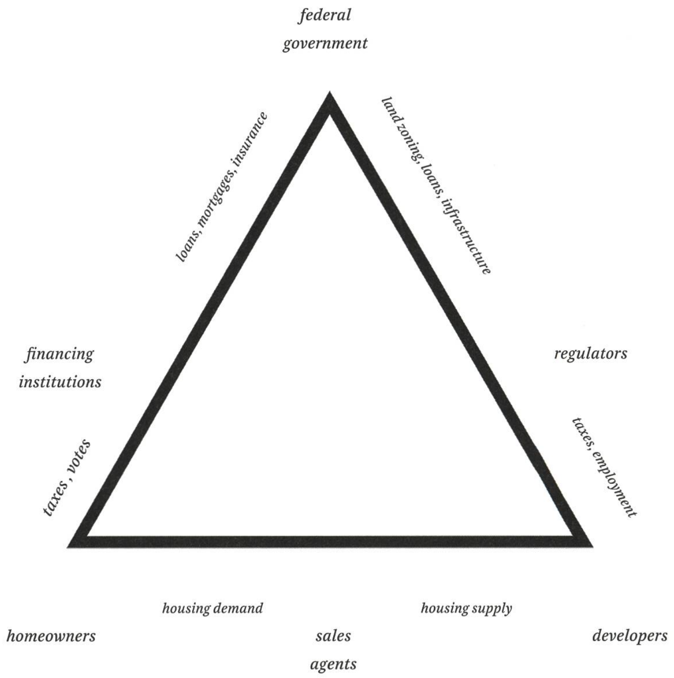


fig. a. The Private Housing Market Triangle, source: author.

Systemic flaws with cyclical tendencies are, by definition, bound to return, albeit in different guises, scales or places. While the United States mortgage crisis of 2007–2009 currently appears to have lost its former media attention, its consequences still resonate through various events of political, social and economic unrest. Similar to the great depression in the 1930s, several economic and political remedies were proposed and (partially) implemented to counteract past failures and anticipate future shortcomings. Economists seem indecisive whether there is too little fiscal regulation or too much market intervention, or vice versa.[1] Undoubtedly, when speaking of predatory lending and uncontrolled short-term speculation, the market-oriented economy of the United States appears to unleash exploitative tendencies. Its mortgage financing system within the private real-estate sector allowed the displacement of risks onto vulnerable groups while evading accountability. The complicated hierarchy of interlinked mortgage securitizations eventually forced the federal government to bail out those institutions that were unavoidably «too big to fail».[2]
And yet, despite the ruthless activities of many financing institutions, doubt about the government's overall innocence arises if one construes the historical origin of such semi-federal financing entities and the mortgage system in general. In fact, the entire image of the American Dream – as being an individually aspired and culturally originated goal of homeownership, social mobility and freedom of choice – is challenged if one considers the long-term effects of 1930's New Deal policies on consumer preferences.[3]

«There's always free cheddar in a mousetrap, baby.»[4]
Tom Waits

For the sake of simplification, one could describe the housing market in the United States as a cyclical triangle between the federal government, homeowners and housing developers that is driven by mutual dependencies and incentives (fig. a). Each protagonist represents an entity of multifaceted means and agendas. Banks, rating agencies and sales agents take on positions in between these protagonists. They represent facilitators of supply and demand that are like lubricating oil for the housing market machine. To keep the machine running, the accessibility to and insurance of capital provides the essential market fuel through mortgage markets. Since its first direct involvements in the housing market during the 1930s, the federal government has continued to implement biased policies for a certain type of (sub-)urbanization. It has realized its aims through infrastructural subsidies, building guidelines and a propagandized lifestyle of homeownership.[5]
Prospective homeowners always appear to have been equipped with a relative freedom in relation to their choice of housing. But little more seems to have influenced the preference of households for single-family houses than easy access to low-down payment loans.[6] Since the industrialization of housing production, private housing development has most likely represented more to the federal government than a mere provision of residential spaces. If one superimposes long-term fluctuations of US housing starts and house prices with geopolitical events, financial crises and legislative enactments, a potentially correlating pattern becomes conceivable (fig. b). Stimulation and steering of the building sector has been utilized to counteract a variety of erroneous trends with equally threatening socio-economic consequences. It has, for example, helped to transfer excessive labor forces from war industries to building industries while fostering the predominance of unprogressive and highly wasteful building methods. It has indirectly created demand for predominantly suburban homeownership through financial deregulation without the necessary legislation to reassure long-term household affordability. Finally (but not lastly), it has accepted a disproportionate remuneration and subsequent bailout of financial institutions while intensifying overall socio-economic segregation and increasing household debt.[7]

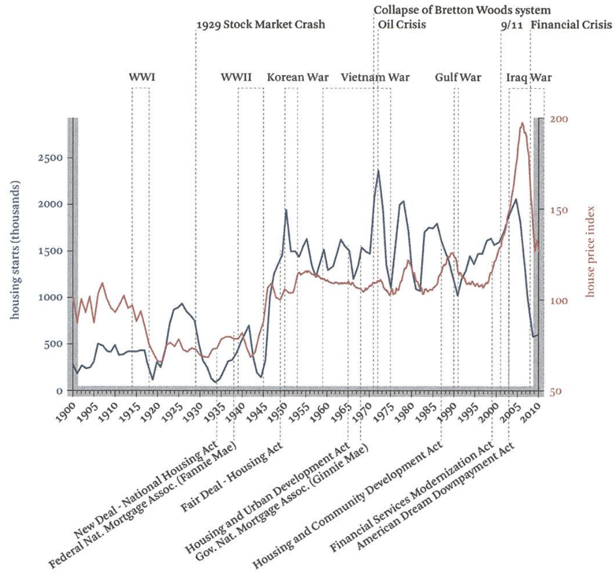
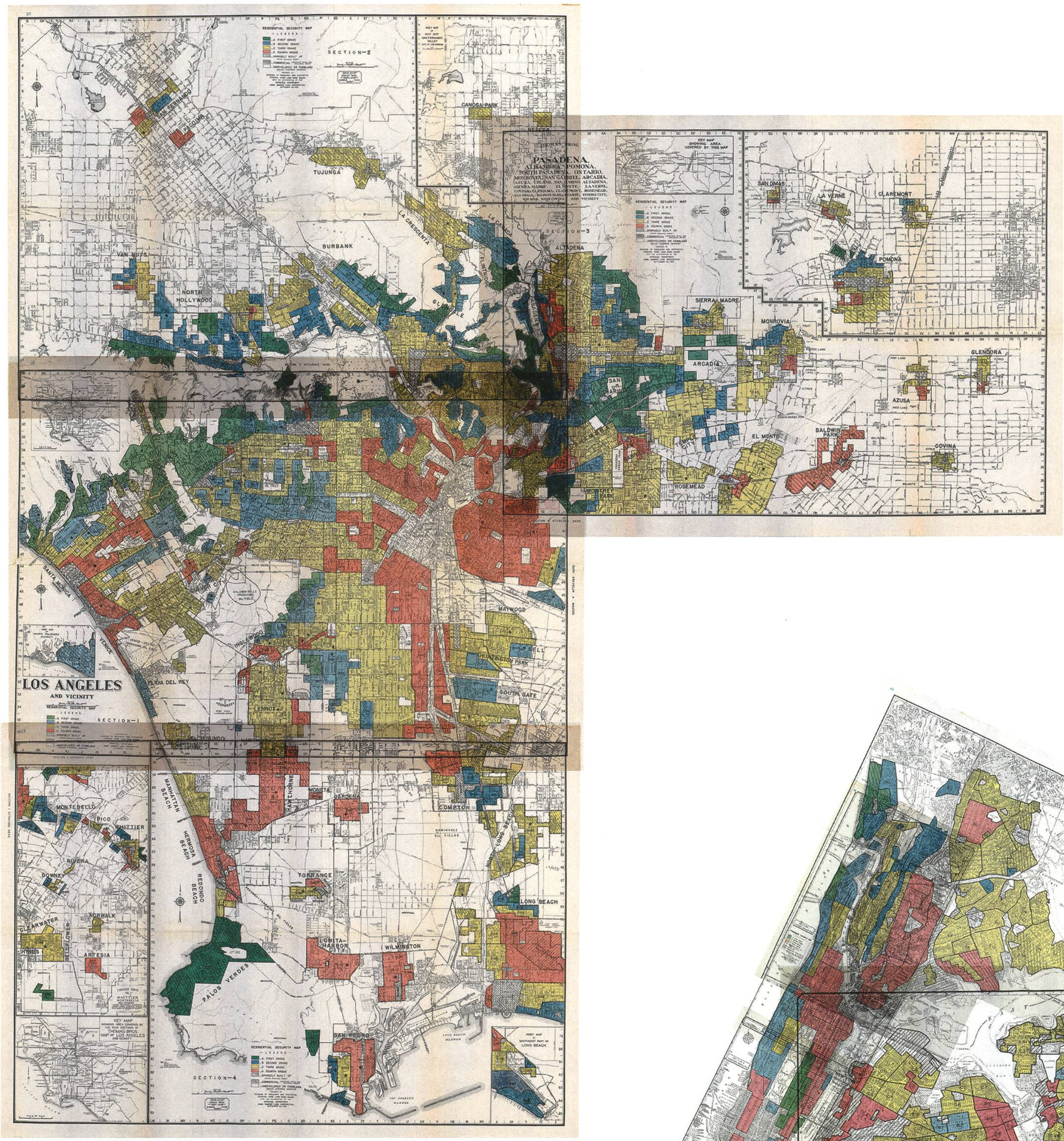


fig. b. Housing starts, house prices, enactments and geo-political events, source: Case Shiller Index, Wikipedia, Graaskamp Center.

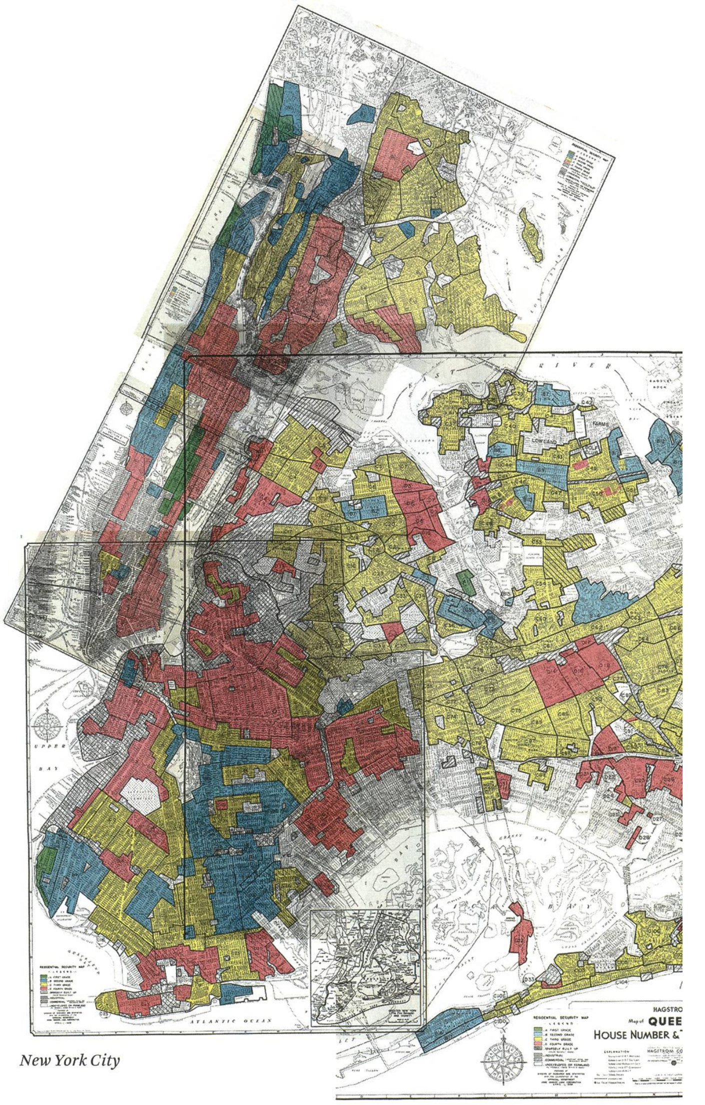
Since the 1930s, the housing market triangle has therefore transformed from being a well-intended system for the improvement of living standards to being a means and goal in itself to stimulate, or perhaps, simulate growth. Repeatedly overvalued growth that is founded on the idealization of homeownership through a nationwide increase in household debt. In a more generalized and provocative tone, the building industry has reached such a prominent and influential economic position that a homeowner no longer works and takes a loan in order to finance a house. She or he finances a house and takes a loan in order to eventually have a job.

«No man who owns his own house and lot can be a Communist. He has too much to do.»[8]
William Levitt

Apart from infrastructural subsidies and zoning policies, historically, mortgage financing appears to be one of the main drivers of decentralized urbanization with far-reaching repercussions for the development of cities throughout the United States. During the first years of the great depression, housing markets were characterized by a low demand for homeownership due to little availability of affordable loans. Property speculation had resulted in high foreclosure rates and severe drops in property values during the 1930s. To counteract these developments, New Deal policies laid the foundation for a housing market that was financed primarily through state securitized mortgages with a strong bias towards single-family houses.[9]
The Federal Housing Administration (FHA) along with its subsidiaries had been created to insure loans for both families and housing developers. Thereby establishing an



Los Angeles



New York City

Territorial maps rating relative risks for mortgage financing potential

- *best*
- *good / saturated*
- *declining*
- *hazardous*

fig. c. Mortgage Security Maps, 1938. Source: LaDale Winling / www.urbanoasis.org // NARA II RG 195 Entry 39 Box58,184,101.

unprecedented condition whereby specific demand groups, urban areas and housing types could be promoted through federal incentives and regulations. For example, various versions of territorial maps were developed which rated risks of mortgage securities within specific neighborhoods of larger metropolitan areas (fig. c). By rating most areas within the closer metropolitan perimeter as either declining or hazardous for future development, these maps allude to the probable reality of racial and income segregation as well as negligence of already developed territories. Neighborhoods, developers and homeowners outside of these «yellow» and «red» areas were more likely to receive FHA insurance and hence mortgage financing.[10] In addition, the FHA's underwriting manuals, technical bulletins and political propaganda campaigns all strongly prioritized single-family homes at a minimal price for a certain type of household. Thus, the existence of a long-lasting culture of biased policies seems very imaginable. Policies which orchestrate(d) an idealized image of the so-called American Dream in favor of a short-term profit-hungry building and finance industry.[11]

> «The question is not how things stabilize themselves in a 'static state', but how they endlessly grow and change.»[12]
> *Thorstein Veblen*

If one follows the development of mortgage markets as of the 1930s till the mortgage debt crisis of 2007–2009, there appears to be a critical inversion in the driving factors that eventually catapulted overproduction, overvaluation and overload in household debt. In the beginning, the increase of mortgage accessibility, despite its socio-territorial prioritizations, seems to have been a very suitable tool to meet the tremendous housing demand of the post-World War II period. Credit risk ratings combined with long-term fixed-interest loans established an idealized and yet relatively stable culture of nationwide homeownership. As of the 1970s, de-regulatory enactments not only detached lending institutions from local real-estate market conditions, but also allowed the entire mortgage financing system to switch from a demand to a supply driven market. After the beginning of the 21st century, it was not primarily the rise of a housing bubble that eventually fueled the mortgage market and consequently led to extensive credit defaults and foreclosures. By contrast, a growing mortgage market had actually fueled the overproduction and overvaluation of housing which created a housing bubble in the first place.[13]

Since the 1930s, each entity (and middleman) within the housing market triangle seems to have benefited and suffered from making decisions based on individual interests. Developers understandably intend to make profits, homeowners naturally aspire to fulfill their desires (or small-time investments), banks perpetually succeed in collecting bonuses, while the government is continuously interested in getting (re-)elected. In times of crises, these same actors suffer more or less from overestimating their own capacities and scope of judgment. In other words: a typical classical economic scenario of free and transparent markets garnished with somewhat serious state steering and financial lobbyism. Even in capitalism's favorite playing field, the very visible hand of the government always seems to guide Adam Smith's invisible hand of the market. And now–roughly seven years after the US mortgage debt crisis started having detrimental effects on the world economy – past patterns of real-estate growth are taking shape once again, albeit in different guises, scales and places.

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2 For example Fannie Mae and Freddie Mac. Further information: Gotham, K.F., ‹Creating Liquidity Out of Spatial Fixity—The Secondary Circuit of Capital and the Restructuring oft he US Housing Finance System›, in: Aalbers, M.B. (ed.), ‹Subrprime Cities—The Political Economy of Mortgage Markets›, Chichester 2012, pp. 25–52.

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4 Quoted from song lyrics ‹God's Away on Business› by Tom Waits, www.tomwaits.com/songs/song/51/Gods_Away_On_Business/. Retrieved: 30.11.2015.

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10 Jackson, K., ‹Crabgrass Frontier—The Suburbanization of the United States› New York 1985, pp. 190–218 // Hillier, A. ‹Redlining and the Homeowners' Loan Corporation› in: Journal of Urban History, Volume 29, Issue 4, 2003, pp. 394-420.

11 Easterling, K., ‹Organization Space: landscapes, highways, and houses in America›, Cambridge 1999, pp. 174–199 // Cuff, D., ‹The Provisional City›, Cambridge 2000, pp. 253–268.

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