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Household vulnerability in rural areas: Results of an index applied during a housing crash, economic crisis and under austerity conditions

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ABSTRACT

The emergence of the economic crisis in 2007/2008 has increasingly exposed rural localities to exogenous shocks and ruptures within the globalised economy. Rather than focusing on economic growth alone, many commentators have begun examining how regions and localities can cope with economic crises by enhancing place resilience and reducing the vulnerability of places to global economic uncertainty. However, scant attention has been given to assessing economic vulnerability at the household scale. This paper attempts to marry and relate the global processes at work in both the literature on financialisation and vulnerability to facilitate understanding of and provide a framework for financialisation research at the household scale. In this context, we develop and apply a Household Vulnerability Index (HVI) to rural areas. Drawing on survey data, the index utilises both objective indicators (e.g. household income) and subjective indicators (e.g. household perceptions of future job insecurity) to provide a nuanced account of living conditions and life satisfaction among rural households in Ireland during a housing crash, economic recession and the widespread adoption of austerity measures across public policy. By adopting a vulnerability approach (rather than providing a 'snapshot'), the HVI enables an assessment of not only current conditions for households, but also the probability of continued declining living standards and the exposure of households to further exogenous shocks. This provides a useful tool in assessing the potential impact of a range of public policies at the household level. In the case of Ireland, a link emerged between increased household vulnerability and rural localities that experienced an oversupply of houses during the recent speculative housing bubble, suggesting that the failure to effectively regulate development and finance has increased household exposure to financial risk.

1. Introduction

Across Europe, there has been a dramatic unfolding of economic and political events in the wake of the economic and banking crisis of 2007/08. Many European economies remain fragile or in recession and this economic instability has been translated into political instability. European citizens have turned away from political parties perceived as being liable for the crisis and from those implementing austerity programmes, as is evident in a series of elections in Ireland, Spain, Greece, France, Italy and the recent collapse of the coalition government in the Netherlands. Perhaps more fundamentally, the crisis has also revealed the unsustainable nature of the dominant economic model underpinning growth during the 1990s/2000s. As outlined by Kitson et al. (2011), this model was based largely on consumers borrowing cheaply to spend rather than employers increasing wages to stimulate demand to achieve growth which resulted in dramatic increases in household and general government debt.

While the European policy response to the crisis has been dominated by austerity programmes, the actual impacts of the recession have been spatially diverse. While the crisis has hit all European countries, the problems manifest in Euro-zone peripheral countries are more severe and deeply rooted (Avellaneda and Hardiman, 2010). The so-called PIIGS countries (Portugal, Ireland, Italy, Greece and Spain) have been severely affected by dramatic property crashes (notably in Ireland and Spain), rapid increases in youth unemployment and emigration, ongoing banking crises that continues to undermine future economic prospects, the implementation of severe austerity measures to rebalance public finances and reduce national debt, and in the cases of Ireland, Greece and Portugal, the pursuit of so-called internal devaluation measures to increase competitiveness and to satisfy the conditions of International Monetary Funds/European Union bailouts. In this context, Europe's cities, regions and rural localities (particularly within the Euro-zone periphery) are increasingly vulnerable to exogenous shocks within the globalised economy.

In the case of Ireland (the empirical focus of this paper), the economic crisis has centred on the interrelated issues of a severe banking crisis and the bursting of a speculative, bank/developer-led housing bubble (Nyberg, 2011) which resulted in the

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nationalisation of some of Ireland's banks and the subsequent rescue of the state through an EU/IMF bailout to the tune of €67 billion. The consequences for the Irish economy has been dramatic, including significantly declining tax revenue (due to a previous reliance on construction sector related taxes), a GDP per capita decrease of 11.1% between 2008 and 2011 (Fraser et al., 2013), with unemployment levels currently standing at 14.3%. Rural regions and localities have been far from immune to these shifts within the global and national economy. Indeed, in the Irish case this has been aptly demonstrated by both the restructuring of rural space related to the housing boom, itself a product of neoliberal deregulation and global financialisation of mortgage markets, and the subsequent recession, revealing new vulnerabilities in the face of recession and austerity conditions. While there is a growing literature examining these global conditions in relation to the regulation of the global economy (e.g. Aalbers, 2009a,b; Peck et al., 2009) and the impacts of the housing and financial crisis on national economies (e.g. Kim and Renaud, 2009; Scanlon et al., 2011), there is currently a dearth of literature examining the actual impacts of the recession on household spaces or the everyday lived experience within the economic crisis. In this paper we address this significant gap by exploring rural household vulnerability within the context of the global financial crisis and the roll-out of austerity policy measures. To address this, we develop and apply a Household Vulnerability Index (HVI) for rural areas drawing on survey data and a range of both objective and subjective indicators. Before dealing with the approach being utilised, the next section locates the research within the financialisation and vulnerability literature. Thereafter, the economic crisis is discussed paying particular attention to the Irish case. Then, the HVI methodology is outlined in detail before it is applied in the results section of the paper. Finally, some broad conclusions are drawn in relation to the results and their implications for theory and policy.

2. Financialisation and household vulnerability

Since 2007, housing and financial markets have experienced one of the greatest periods of volatility and uncertainty in modern history (Scanlon et al., 2011). Initially, the crisis was centred on the banking sector and the so-called credit crunch, with its roots in the sub prime mortgage lending practices in the US leading to bank failures and plummeting stock markets (Gotham, 2009). This has been swiftly followed by a sovereign debt crisis in Europe, notably in Greece, Portugal and Ireland, the wider risk of contagion to larger economies (such as Spain and Italy), and the emergence of a political discourse focusing on fiscal discipline through (mainly) reductions in the level of public services and a retraction of traditional welfare state measures. The financial crisis and the global banking collapse has plunged the economies of much of the developed world into what has been the longest and deepest recession of the post-war period, revealing the limitations of the global financial system based on speculation, leverage, dramatic rises in debt and deregulation (Kitson et al., 2011). Harvey (2011) identifies two key factors to explain the current economic crisis: (1) the deregulation and empowerment of the most fluid and highly mobile form of capital – money capital – "to reallocate resources globally, finding new ways to absorb risks through the creation of fictitious capital markets" (p. 5); and (2) bubbles in the asset market (such as housing and property markets) compensating for the lack of other investment opportunities, fuelled by finance capital and facilitated by extensive financial innovations. In the wake of the financial crisis, a growing body of literature has examined financialisation relating to mortgage markets and home ownership, referring to a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production (Aalbers, 2009a). Research in this area, for example, has focused on the linking of mortgage markets and stock markets through so-called securitisation investment vehicles (Gotham, 2009; Wainwright, 2009) originating in the US sub prime market, and globalisation of mortgage markets as a result of the financialisation of borrowers and markets and a globalisation of mortgage lenders (Aalbers, 2009b; van der Heijden et al., 2011). For Aalbers (2009a) this transformation of the mortgage market has had profound effects on housing markets and the creation of housing bubbles, enabling the expansion of the mortgage market and allowing borrowers to buy more expensive homes fuelling a housing bubble. Furthermore, a surge in credit (often through transboundary flows of capital) has also fuelled speculative construction booms as banks facilitated often high-risk loans to developers. For example, a number of commentators have revealed that the Irish speculative boom in house-building stemmed from a surge in credit to developers and extraordinarily risky lending behaviour of banks, itself fuelled by borrowing from foreign banks (Honahan, 2009; Kelly, 2010).

This general expansion of credit, particularly to the mortgage market, led to rapid house price increases throughout the industrialised world over the last decade: between 1995 and 2006, real house prices rose in Ireland by 180%, 133% in the UK, 105% in Spain, 90% in Australia, 99% in France, 104% in Sweden, 93% in the Netherlands, 69% in the US and 52% in Canada (Kim and Renaud, 2009). These rapid price increases are also associated with the rapid build up of mortgage debt over the last two decades; for example, Meen (2011) outlines that mortgage debt in the UK as a percentage of household income is now four times higher than at the start of the 1970s. At the household scale, the expansion of the mortgage market was facilitated by shifting bank lending practices and 'new mortgage products' including mortgages with longer durations than the traditional 20–25 years, an increase in loan-to-value ratios and the introduction of 100% mortgages (i.e. no deposit required), and lending criteria moving away from income multiples to a limit based on the ratio of mortgage service cost to income (Duffy, 2010).

While financialisation research has grown significantly in recent years with an increasing consensus that financial institutions and markets perform a substantial role in shaping economic, social and cultural life, French et al. (2011) argue that research has been insufficiently attentive to space and place, both in terms of process and effects. In contrast, French et al. argue that "financialisation must be understood as a profoundly spatial phenomenon, holding out the promise of a financial, spatial–temporal fix for the crisis tendencies of contemporary Anglo-American capitalism" (p. 814). Moreover, Engelen et al. (2010) argue that although the crisis reveals a 'global financial village' (p. 53), they note that the fallout from the crisis has not been homogenous across space, with some localities hit harder than others, suggesting that there are distinct geographies of financialisation. In this context, we seek to contribute to the financialisation literature in two ways: first, by examining an under-researched spatial context (rural localities) to examine place-specific outcomes of the crisis; and second, by applying the literature surrounding vulnerability as a framework for advancing financialisation research at the household scale.

The rationale for the rural focus in this paper is twofold. First, from an international perspective, there is a growing body of literature highlighting the penetration of global financial markets into different spatial contexts to examine the impacts of a 'global crisis' at the local scale (Langley, 2006; Wainwright, 2010; French et al., 2011). These issues have been primarily addressed in the US context where the explicit geographies of the subprime crisis has been explored by researchers examining how local, primarily suburban, neighbourhoods have been affected by a crisis emerging from global financial networks (Wainwright, 2010): for example, see