



Mortgage-related issues in a crisis economy: Evidence from rural households in Ireland

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ARTICLE INFO

Article history:

Received 11 June 2012

Received in revised form 5 December 2012

Available online 16 January 2013

Keywords:

Economic crisis

Actually existing neoliberalism

Neoliberalisation

Mortgage crisis

Rural households

Resilience

ABSTRACT

The recent economic crisis has demonstrated the extent to which households are exposed to the financialisation of advanced economies. Much of the debate surrounding the reasons for the crisis has centred on the role of neoliberal policies and particularly lax mortgage lending practices among financial institutions. This paper explores how neoliberal ideas were applied to property and development during the Irish house-building boom. Drawing on questionnaire survey data across five case study locations, it examines the mortgage practices of rural households during the boom period and their existing conditions in the current burst. In addition, the impacts and consequences of the neoliberalisation of the rural mortgage market for rural households within the context of the failure of these policies, a major housing crash and a neoliberal policy fix based on severe austerity measures is examined. Our results point towards the extreme hardship and stress being felt by rural households and highlight, through the lens of rural housing, the extent to which the practices and consequences of neoliberal policy in the mortgage arena are varied spatially in rural areas.

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1. Introduction

'The free market project is on the ropes. Never before has the question of neoliberalism's political, economic, and social role – culpability might be a better word – been debated with such urgency, so globally, and in such a public manner' (Peck et al., 2009, p. 94).

Since 2007, global 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. Essentially, a new politics of austerity (Kitson et al., 2011) has emerged in which the global financial crisis has been interpreted as a crisis of neoliberal governance (Peck et al., 2009). Across Europe, for example,

political parties associated with neoliberal reforms and austerity programmes have been voted out of government in Ireland, Spain, Greece and most recently France; the Dutch coalition recently collapsed in the face of further economic uncertainty, while in the UK, shareholders have increasingly challenged the behaviour of corporate elites, dubbed rather optimistically by *The Guardian* newspaper as the 'shareholder spring'. It is notable though that in many of these nations, including Ireland, parties associated largely with neoliberal reforms have not been replaced by those with radical anti-neoliberal tendencies.

Within Ireland, which is the focus of this paper, the fall-out from the financial crisis has been dramatic, particularly in relation to a boom and bust within the housing and property sector. Throughout the so-called Celtic Tiger years, the Irish economy became increasingly focused and reliant on property, facilitated by neoliberal tendencies within the deregulation and re-regulation of the financial/banking sector and within the land-use planning regime. Ireland's economic growth in the 1990s was swiftly followed (after 2000) by a housing and construction boom, characterised by rapidly increasing house prices, a massive increase in house building, and a concentration of the economy in the construction sector. As Kitchin et al. (2010) observe the subsequent collapse of the property and banking sectors has led to a contraction in the wider economy, with the drying up of credit, markets and tax revenue, leading to severe pressure on the public finances; an extensive bank bailout, including the establishment of the National Assets Management Authority (NAMA) that has acquired €88 bn

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of property debt; and bank recapitalisation and nationalisation. The consequences of this collapse have further led to a joint EU/IMF bailout of over €67 billion and the introduction of severe austerity measures across the public sector and for public service delivery (Drudy and Collins, 2011).

At a household level, house prices are 50% lower than their highest level in 2007; house prices in Dublin are 55% lower (apartments are 60% lower) while house prices outside Dublin are 47% lower (CSO, 2012a). Unemployment levels have risen to 14.3% (CSO, 2012b), and emigration has re-emerged as a characteristic feature of Irish life; for example, between May 2009–April 2010, official estimates suggest that 65,300 people emigrated, with a further 76,400 emigrating from May 2010–April 2011 (CSO, 2011). The Irish Central Bank (2012) highlight that by the end of March 2012 there were 764,138 private residential mortgage accounts in Ireland, with 77,630 accounts in arrears for more than 90 days – 10% of the mortgage market. In addition, a further 79,712 mortgage accounts have been ‘restructured’ to address repayment difficulties. Together, mortgages that have been restructured or are in arrears represent 15.2% of the total residential mortgage market, prompting the current coalition government to establish an ‘expert working group’ to report on mortgage debt.

The primary aims of this paper then are to understand how neoliberal ideas were applied to property and development during the Irish house-building boom, and drawing on survey data, to examine the mortgage practices of rural households across five case study locations and the existing implications of mortgage-related issues for households. The focus on *rural* localities and households is for the following reasons: firstly, rural localities were far from immune from the Irish construction boom, and speculative house-building was a significant feature across rural Ireland during the Celtic Tiger years. Secondly, a surge in credit to developers and pro-development land-use regulation in rural localities resulted in widespread over-zoning for residential purposes (AnTaisce, 2012) and significant overdevelopment (Kitchin et al., 2010) dislocated from actual housing demand, resulting in rural households being exposed to an increased risk of negative equity due to excess housing supply. And thirdly, there is a significant gap in our understanding of neoliberalising tendencies in rural space, with analyses limited primarily to the agricultural sector (e.g. Dibden et al., 2009; Shucksmith and Rønningen, 2011) and agri-environmental management (Hodge and Adams, 2012). In this paper we seek to extend this analysis to property and land regulation focusing on the mortgage practices of households during the boom period and the impacts and consequences of the neoliberalisation of the rural mortgage market for rural households within the context of the failure of these policies, a major housing crash and a neoliberal policy fix based on severe austerity measures.

2. Neoliberalising home ownership

The political-economic ideas of neoliberalism have become deeply entrenched within public administration in most parts of the world (Sager, 2011) with profound socio-spatial consequences as increasingly the belief that the market should discipline politics at a variety of spatial scales has become adopted as orthodoxy (Jessop, 2002). While in danger of becoming a ‘rascal concept’ (Brenner et al., 2010a), neoliberalism has also become dominant within social sciences as a powerful lens to examine regulatory transformation and socio-spatial change processes. The extensive literature on neoliberalism seeks to explore the shifting relations and balance between the state and market as market ideology has become increasingly dominant within spheres of action traditionally led by government. This shifting balance has been characterised as both ‘roll-back’ and ‘roll-out’ neoliberalism (Peck and Tickell,

2002), combining both a commitment to extending markets while also deploying state power in the pursuit of market interests as a form of meta-regulation. In a recent paper, Brenner et al. (2010b, p. 330) provide additional clarity in relation to defining the characteristics of neoliberalism as follows:

‘Neoliberalism represents an historically specific, unevenly developed, hybrid, patterned tendency of market-disciplinary regulatory restructuring’ (italics in original).

As further outlined by Brenner et al. (pp. 331–332), this definition implies (in summary):

- Neoliberalism as a form of regulatory reorganisation to impose, extend and consolidate marketised commodified forms of social life.
- The process of neoliberalisation has been deployed unevenly across places and scales, resulting from continuously evolving neoliberalisation projects overlapping with inherited politico-institutional arrangements at global, national and local levels.
- Neoliberalisation is one of several competing processes of regulatory restructuring.
- Neoliberalisation is never manifested in ‘pure form’, but rather can only be articulated in ‘incomplete, hybrid modalities’.
- Processes of neoliberalisation have generated significant and markedly patterned cumulative effects upon the spatial reorganisation and regulation of capitalism.

Therefore, for Brenner et al., neoliberalisation is defined as a ‘variegated, geographically uneven and path dependent process’ (2010b, p. 327). These themes are further elaborated by Peck et al. (2009), highlighting that hybrid forms and path dependency emerge as key to understanding neoliberalising practices as neoliberal projects interact and overlap with inherited institutions, rules and cultures, and local trajectories, to form ‘hybrid assemblages’. The hybrid nature of neoliberal projects has led Castree (2008), in his work on neoliberalising nature, to highlight that researchers now take as self-evident that they are exploring variable processes of neoliberalisation rather than a fixed end point of neoliberalism. Similarly, Sager (2011), drawing on Peck et al. (2009), outlines that no country has implemented a prototype of neoliberalism featuring all its theoretical characteristics in ideal form, again emphasising the hybrid nature of neoliberalisation. This theme will be further addressed below in relation to the Ireland case, as the deployment of neoliberalising practices collided and overlapped with traditional attitudes to regulation and development within national and local political institutions.

In the aftermath of the housing and financial crisis of 2007/2008, critiques of neoliberal practices have placed a spotlight on the role of deregulation and re-regulation of capital and development as a cause of the global recession. A key theme within this work has been the ‘financialisation’ of mortgage markets and homeownership, referring to a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production (Aalbers, 2009a). While housing systems vary considerably across the globe, research has increasingly focused on the role of the globalisation of the financial sector to both reallocate resources globally and to create asset and property bubbles by the switching of capital from the primary circuit of capital (manufacturing and industrial production) into a secondary circuit of real estate investment (Harvey, 2011). In this context, Aalbers (2008) argues that mortgage markets have been transformed from being a ‘facilitating market’ for homeowners in need of credit to one which increasingly facilitates global investment whereby not only homes but also homeowners are viewed as financially exploitable. Research in this area, for

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