

*Care-full Markets: Miracle or Mirage?*

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Professor Smith's research embraces the interdisciplinary world of housing studies. In a series of projects spanning two decades and three continents, Professor Smith has questioned the inequalities embedded in residential segregation, exposed the insecurities underpinning victimization and fear of crime, recognized the challenge of housing for health, and confronted the tension between markets and an ethic of care. The 2010 Tanner Lectures expand on this latter theme, drawing from research on the uneven integration of housing, mortgage, and capital markets, to overturn some conventional wisdoms surrounding the recent financial crisis.

Professor Smith's research is funded by research councils, government, and charities. She has published more than one hundred scholarly articles, often in peer-reviewed journals, and several books. She is coeditor of *The Blackwell Companion to the Economics of Housing* (2010) and editor in chief of the *International Encyclopedia of Housing and Home* (2012).

## INTRODUCTION

The Tanner lecturers are invited to contribute to a better understanding of human behaviors and values. To that end, I address a recurring theme concerning the potential and limitations of markets, when judged against ethical and moral benchmarks. A common argument is that the “wrongs” of markets in capitalism can be righted, and human “goods” secured, by suspending or displacing market mechanisms in the interests of some alternative distributive system. *My* concern, however, is whether similar beneficial ends can be achieved, not by arguing against markets, but rather by bidding for them, with a view to operating the economy differently.

My broad aim, therefore, is to air some fundamental questions about the character and function of markets. Engaging with themes introduced by McCloskey (2010), I ask whether markets are simply and only dispassionate amoral mechanisms for distributing goods and services according to ability to pay: are rationality, calculation, completeness, and efficiency all they contain? Must other human values be segregated into separate spheres like public policy or personal life? Or do markets have an inherent tendency toward immorality? Do they privilege disagreeable motives, convert vices like greed into virtues, and reward prudence over pity; do they valorize competition by denigrating compassion? Might it even be possible for markets to generate virtues? Are market relations necessarily individualistic and oppositional, or could they promote cooperation, enable mutuality, and be compatible with an ethic of care?

These are wide-ranging questions, which demand interdisciplinary answers. Certainly, they will not adequately be addressed by maintaining the conventional intellectual division of labor between “the best” (neoclassical economics) and “the rest” of social science. Fortunately, that enduring divide is being bridged from both sides, as scholars aim to reconstruct economics as a moral rather than a natural science, recognizing that the economy is, in a sense, too important to leave to economists! It is in the spirit of such bridge-building that I offer these Tanner Lectures.

To focus the argument, I draw examples from the markets closest to so many people’s hearts: housing. Curiously, housing has rarely featured in the Tanner series before, except as an aside or an illustration. This itself seems odd, given how central the facts of accommodation and the meanings of home are to the human condition, and in view of how critical the housing economy has proved to be for the financial fortunes of whole

nations and the households constituting them. For my purposes, moreover, housing is a particularly apposite touchstone as the first decade of the millennium draws to a close. There was, after all, clearly something about housing markets, and about the mortgage and financial markets linked to them, that nudged the global economy to the brink of collapse as the twenty-first century gained momentum. An equally pertinent question is whether the effective management of home assets and mortgage debts might aid sustainable recovery. I consider both these puzzles.

I begin with a critique: an interpretation of the “crisis of residential capitalism” prompted by the extent and mismanagement of mortgage debt. It is easy, with hindsight, to see that debts can be dangerous, and I shall certainly enlarge on that. However, in the first section of the discussion, I shall also consider whether lending and borrowing can ever be “right.” My argument here is that, at the very least, an inquiry into the motivations for mortgaging raises new questions about the values and morals in markets. After pondering the dilemmas of debt, I turn, in the second section, to the asset side of the housing equation, which some might consider to be safer ground. Again, this is probably true. However, mixing investment returns with the meanings of home carries risks that are rarely recognized. I suggest that bringing these into view carries some far-reaching implications for the management of housing’s financial future. The second part of the discussion thus has a normative feel, considering some alternative visions of a fairer housing economy.

The bulk of the discussion is rooted in housing systems centered on owner-occupation—a style of accommodation that forms the majority housing tenure, and the dominant policy trend, in nearly every country of the world. There is great diversity internationally in the extent and institution of owner-occupation (a point I shall return to). Within Europe, for example, Switzerland and Germany are generally seen as having anomalously low home-ownership rates; the figures stand at 38 percent and 41 percent, respectively. Yet, even here, the trend is upward: only 30 percent of Swiss and 36 percent of German homes were owner-occupied in the early 1990s. This upward trajectory is common across the OECD (Andrews and Sánchez 2011). At the higher end of the scale are countries like Hungary (92 percent), whose high rates of home ownership were achieved recently when government stock transfers turned renters into outright owners almost overnight, and Spain (83 percent), where family wealth is important

It is not, however, the extent of owner-occupation, but rather the dominant method of achieving it, that is of interest to me here. The

present high rates of ownership in eastern Europe were achieved through the direct imposition of political will. High rates in southern Europe reflect (among other things) intergenerational transfers. Throughout the English-speaking world, on the other hand, the growth in owner-occupation was enabled primarily by the expansion of mortgage markets. This is the trend I am concerned with. It is best (if that is the word) exemplified in the experiences of Australia, the UK, and the United States, and these jurisdictions are the source of my illustrations. For the most part I cite evidence, and develop ideas, from my own (often collaborative) research. Since there is space for only a broad overview of this, key papers (containing both empirical detail and conceptual development) are mentioned where appropriate. Otherwise, the text retains the format of the original lectures and is lightly referenced. I do, nevertheless, owe an enormous intellectual debt to colleagues near and far.

## LECTURE I. MORAL MAZE: DEALINGS IN DEBT

I begin with the debt side of the housing equation, and not only because it has featured prominently in the news. Debt in the developed world increased massively across the 2000s. Numerous studies now document this. The ten mature economies profiled in a report by the McKinsey Global Institute (Roxburgh et al. 2010), for example, witnessed an average increase in debt from 200 percent of gross domestic product (GDP) in 1995 to more than 300 percent by 2008, with some countries showing a much steeper trajectory (topped by the UK at 469 percent). Most striking is the extent to which this debt became anchored in property. By 2007 bank lending for residential mortgages amounted to 81 percent of GDP in the UK and 73 percent in the United States, at least double the GDP equivalent of bank lending to businesses. Across all the economies measured by Roxburgh et al. (2010), moreover, the growth in household debt between 2000 and 2008 (which is dominated by mortgage debt) outstripped the growth in nonfinancial business and government debt, and (at 66 percent) just matched the growth in financial institution debt. The growth in bank lending in this period was also concentrated in residential mortgages. In short, secured debt was rapidly becoming “the new gold.”

The standard account must by now be familiar: a flow of easy credit in an era of cheap loans prompted an unsustainable bonanza among banks

and borrowers; what began as a bid for financial inclusion produced a narrative that ended in tears. If there were ever a signal that debts can be dangerous, it is the crisis of credit in a decade dubbed the “noughties.” But what exactly went wrong?

One answer is that debt must always be dubious: “neither a borrower nor a lender be.” That moral is etched into the story of human life: the lessons of history, the leanings of religion, the literary imagination, the stuff of proverbs, the moral of the story. In practice, of course, the character of lending and borrowing is more complex and quixotic. Elsewhere I have described it as a tale of three markets (Smith 2012): housing markets, where most people keep their money in an asset that is poorly understood; mortgage markets, which have been transformed through a process of deregulation and product innovation, yet which have not changed quite enough; and financial markets, which were invented to manage the risks this all implies, but which failed spectacularly so to do. Here, however, I view contemporary dealings in debt as an awkward encounter between the values of individuals and the ethics of institutions. To tease this out, I turn first to the households who borrow, since their story remains least well known. Then I consider the institutions that lend; their plight is better documented, though not as fully as I would like.

#### CAREFUL CONSUMERS?

In the home-ownership societies of the English-speaking world, and in a variety of other jurisdictions too, housing and mortgage markets are almost completely integrated. That is, most households require a mortgage to attain owner-occupation. Even though outright ownership may be substantial (accounting for 34 percent of owner-occupiers in the United States, 45 percent in the UK, and 55 percent in Australia), this is generally an outcome associated with older age. Most of today’s home owners were mortgagors at some point in their housing careers. In practice, therefore, the expansion of mortgage markets across the twentieth century went hand in hand with the extension of leveraged home ownership.

There is a great deal still to say about what drove this process, and how it pushed the boundaries of owner-occupation, both geographically and across the socioeconomic spectrum. Most important, of late, attention has focused on parts of the United States, where a surge of new lending turned underserved, financially excluded neighborhoods into unsustainably overserved (and overmortgaged) ownership enclaves. At this time—in the early years of the twenty-first century—the rate of growth

of owner-occupation among black, Hispanic or Latino, and Asian and Pacific Islander households was nearly double that of non-Hispanic white Americans. This was due mainly to increased access to mortgage financing and reduced borrowing constraints in previously underfinanced neighborhoods. It seems likely that this process was both discriminatory and racialized, and this is sufficiently disturbing and extensive to merit a lecture in its own right. Indeed, it has spawned an important and growing research literature; I think in particular of several important empirical papers published recently by geographer Elvin Wyly (e.g., 2010).

Nevertheless, overall, home ownership in the United States expanded only marginally, from 64 percent to 69 percent, in the decade to 2004; rates of growth in the UK and Australia were even less. In fact, the most striking trend in the twenty-first century is not the in-tandem expansion of housing and mortgage markets; rather, it is the independent growth in mortgage debt in societies with already high rates of home ownership. That is, and as I have argued elsewhere (Smith 2012), the dealings in debt that dominate the past decade center on the growth of secured lending to people who already own, or are buying, their homes. Such borrowings have little to do with home purchase and everything to do with the growing use of mortgage debt to fund nonhousing expenditures. This is generally known as mortgage-equity withdrawal, though I prefer (and shall use) the label “equity borrowing,” since this captures the fact that funds are released for discretionary spending and very little is known about what happens next.

Equity borrowing is not new. It was enabled by the deregulation of mortgage markets in the 1980s and has been possible, indeed common, for nearly three decades, waxing and waning with the ups and downs of home prices. What is striking about the past decade, however, is the extent to which such borrowing occurs not just at the point of new purchase (where overmortgaging can help smooth the costs of residential relocation) but rather to add to debts in situ.

In the United States, this has become known as “cash-out” refinancing. As the 2000s dawned, refinancing became a key mechanism by which US mortgagors took advantage of falling interest rates to reduce their housing outlays. By the end of 2003, the value of refinance loan originations was three times the value of loans for new purchase. The two styles of borrowing came into line as the decade wore on, but the proportion of refinance loans categorized as “cash-out” (equity borrowing) increased by twenty-four percentage points to almost two-thirds of the total in the

lead-up to the crash. This helps confirm that American households were increasingly borrowing against property not just as leverage for home purchase, or simply to cover the costs of residential relocation, but rather to raise money to spend on other things.

My own research, with others, considers the character of equity borrowing in two other countries, Australia and the UK. We use the two national panel surveys—the British Household Panel Survey (BHPS) and the survey of Housing, Income, and Labour Dynamics in Australia—as well as a qualitative database assembled from in-depth interviews with more than five hundred home buyers across a series of smaller projects.

Australia and the UK are countries whose mortgage markets are more “complete” than in the United States, supporting a variety of loans in which equity borrowing (to preagreed limits) is almost as easy, cheap, and routine as equity injection (Smith et al. 2002 reviews the innovation of these products). In these jurisdictions it is not necessary (though it has long been possible) to remortgage to engage in equity withdrawal; that capability is built into mortgage contracts from the start. The figures are striking. In our most recent round of analysis (Ong et al. forthcoming), we show that of the several means available to households to mobilize the wealth accumulating in their homes, in situ equity borrowing is the one that is most widely and most frequently used. The sums involved are smaller per episode than when homes are traded on, or when owners sell up, but the aggregate effect is much larger. Indeed, we estimate that this activity may release more than fifty billion pounds per annum of housing equity in the UK alone.

Economists have recognized the salience of equity borrowing for some time, positioning the collateral channel between housing wealth and consumption as an important link between home prices and the wider economy (Muellbauer and Murphy 2008). From a macroeconomic perspective, however, it is only important to know how much equity is released in this way and (to a lesser extent) whether the proceeds are spent or saved. Rather little attention has therefore been paid to the questions of *why* people have been so willing to add to their mortgage debt, and more crucially still of what they use the money for.

Filling this information gap has been the tacit assumption that cheap and easy borrowing on the back of rising home prices provided easy money to fund an array of consumption wants. Debt-fueled high days, holidays, and champagne moments are, it is broadly agreed, what kept high streets booming ahead of earned incomes in the early years of the millennium.



The truth, however, is rather different. Drawing on findings that are reported in detail elsewhere, I pause here to assemble a jigsaw of tentative observations into the more enduring picture I think they will form.

The first point to make is that very few surveys contain accurate measures of equity borrowing, much less specific details on what the funds are assembled for. Using the one national survey (the BHPS) that provides a glimpse of this, albeit in a question we believe significantly underreports the volume of equity borrowing, Searle and Smith (2010) show that, over seventeen annual waves, the most intriguing of all the response categories is simply labeled “other.” The proportion of equity borrowers who assigned some or all of their funds to this category doubled between 1990 and 2007, to a little under half. No supplementary question casts light on this trend, though we know it to be at the expense of using such borrowings for renovations, repairs, and improvements to property, and we see little evidence of substantial or growing expenditure on conventional consumer goods.

On the other hand, some thought-provoking ideas emerged when we looked, in a parallel qualitative project, at how UK equity borrowers characterize their housing wealth now that mortgage-market innovations have made that wealth so fungible. These findings are detailed in Smith, Searle, and Cook (2007, 2009); some parallel findings for Australia are reported in Colic-Peisker, Johnson, and Smith (2010). Two points are particularly notable. First, there is reference in the transcripts to the financial flexibility that equity borrowing extends, adding to its income- and consumption-smoothing role. Second, the adjectives used to describe the housing wealth that secures such loans include words such as “shield,” “comfort zone,” “lifeline,” and “buffer.” To my reading, this nexus of housing wealth and mortgage debt is, to a striking extent, infused with sentiments that British citizens, at least, might once have invested in the institutions of the welfare state. Certainly, there is a hint that equity borrowing has a safety-net function of some kind.

This qualitative evidence prompted us to look in a different way at the quantitative record. Thanks to the longitudinal character of the national panel surveys, it is possible to identify the characteristics and events that precede or are associated with episodes of equity borrowing, on an annual basis. A full description of the rationale for, and findings of, this analysis is contained in Parkinson et al. (2009); a modeling exercise is presented in Wood et al. (2012). Two sets of relationships are especially noteworthy here.

First, the odds of equity borrowing are raised in circumstances suggestive of pressing spending needs: for example, the onset of unemployment or (in the UK) the occurrence of relationship breakdown, the ongoing condition of being separated or divorced, and the presence of school-age children. In short, the correlates of equity borrowing are consistent with its role as a financial buffer, even controlling for debt consolidation and portfolio diversification. This is consistent with a small but growing literature in economics on the role of housing wealth as a store of precautionary savings, and on the use of mortgage debt to mobilize this (see, for example, Benito 2007, 2009).

Second, there are, nevertheless, some indicators of pressing spending needs that do not elevate the odds of equity borrowing. These include the onset of adverse health conditions and the state of widowhood. One interpretation of this is that such circumstances are “insured” in other ways, such as by state provision of health services or through private life insurance. There are also indicators of financial hardship that actively depress the odds of equity borrowing, such as permanent transitions out of the labor force and continuing detachment from it (withdrawal from job seeking). These events, however, signal a loss of income that is known in advance to be “unbridgeable” and might therefore prompt—if anything—other styles of home-equity withdrawal, such as selling up or trading down.

It seems, then, that equity borrowing is not (only) about funding high days and holidays. More often it is prompted by economic shocks or biological disruptions and is used to meet spending needs created by pressing, uninsured, if potentially bridgeable, periods of financial stress. The “potentially bridgeable” caveat is important, because although in practice there are borrowers who eventually find the gap too wide to cross, the signs are that equity borrowing itself has more to do with prudence than with greed.

Furthermore, there is evidence in the qualitative data that equity borrowing is very often motivated more by virtue than by vice: to meet the needs of others, to fund the costs of care, to execute the responsibilities of family life (Searle, Smith, and Cook 2009). An earlier study among UK home buyers with a range of health needs likewise implies that people very often look to housing markets not simply to “work” (to distribute homes), but also to “care” or at least to meet a range of welfare needs no longer available to them in the social sector (see Easterlow and Smith 2004).

Unsurprisingly, where a sense of well-being or care needs are concerned, there is often a gap between what people seek and what they secure from owner-occupation, and what they seek must vary across jurisdictions. In the United States, for example, equity borrowing may be prompted by health costs in a way that it is not in the UK (Libman, Fields, and Saegert 2012 suggests as much). But overall, such signals as we have suggest that housing wealth and mortgage debt may, for individuals, be filling a void left by the absence or contraction of more social or collective service provisions. It may even be that positioning housing wealth as a de facto asset base for welfare has *enabled* states to retreat, as part of a “really, really big trade-off” between high rates of home ownership and humane levels of welfare transfer (see Lowe, Searle, and Smith 2012). Nevertheless, my suggestion here is that, in the domestic economy at least, the “welfare switching” effect of equity borrowing, as people use it to feed cash into the income gaps opened up by life events and transitions, is something that may have protected, even extended, some of the values—that ethic of care—that inspired the welfare ideal. This is an ironic conclusion, but one that at least recognizes that in the midst of markets gone wild, such values can endure.

#### THE INSTITUTIONALIZATION OF CARELESSNESS?

There is, however, a dark side to this style of debt. Most obviously, it proved unsustainable. There is almost no need to itemize this, since the facts have been so frequently and so starkly laid bare. Most data pertain to the United States, where the shock waves originated and the catastrophe seemed worst, and where serial refinancing beat a pathway out of ownership and into bankruptcy. But even in the better-regulated jurisdictions where my own research is based, the signs are that borrowings on a twenty-first-century scale, against an asset that is also a home, reach the extremes of acceptable risk. Over time, the debt-to-income ratios of equity borrowers in the UK and Australia diverged from those of equity savers (those who used their mortgages in a more traditional fashion), and serial borrowing became increasingly widespread. Our most recent analyses raise further the possibility that such borrowings can, in the end, provide a pathway out of ownership (Ong et al. forthcoming). This may occur through default and repossession. But there is also the possibility that once equity borrowing is exhausted (by income constraints or the limits to home values), then trading down or selling up is the only way that cash-poor households can continue to meet pressing needs by spending from housing wealth.

How could so many citizens, caught up in the ownership ideal, have been placed in so risky a position by their dealings in debt? Part of the answer is that all this lending and borrowing was not funded by traditional means (from bank deposits). Instead, instruments traded on financial markets were used to wash in a tide of cheap loans. Yet this should have made credit markets more efficient, complete, and rational, creating the possibility of providing a wider variety of mortgage products, to a greater number of borrowers, best suited to their needs and ability to pay. After all, what Hamnett (2009) dubbed the “madness of mortgage lenders” began innocently enough in the United States with a plan to boost financial inclusion by securitizing loans that were effectively insured by government-sponsored enterprises. Securitization—a process whereby lenders raised funds for new mortgages by selling off existing loanbooks to other investors—seemed a safe way to increase the flow of funds to underserved neighborhoods. Helping previously marginalized households to attain and sustain home ownership should have been a by-product of the improved functioning of mortgage markets. In fact, however, it sowed the seeds of financial ruin for households and whole economies. How could that have occurred? There are one thousand and one answers to this question. Mine has to do with the deliberate institutionalization of carelessness. The story, in brief, is as follows.

A note of caution for the bid to increase the flow of mortgage funds to borrowers was first sounded when institutional investors evinced a surprisingly large appetite for mortgage-heavy debt-backed bonds. This may, in part, have been because they had no other option for gaining significant exposure to a very large class of housing assets (an argument I advanced in Smith 2009). But it was mainly because the returns were so high. In response, securitization expanded to include jumbo (high-value) market segments as well as private-label and subprime loans (as detailed in Green and Wachter 2010). Even in 2008, the US residential mortgage-backed securities market was larger than any other US fixed-income sector. Critically, the biggest returns were made on the riskiest loan tranches, because marginal borrowers had to pay most for their credit. The problem, of course, was that investing heavily in mortgage bonds (or mortgage-backed securities) could pay off only if borrowers were able and inclined to service their loans.

Many analysts struggle with the seeming disconnect, between bold investment decisions and predictable borrower behaviors, that transformed once-expensive bonds into worthless scraps of paper. It is tempting

simply to say that lenders lost touch with borrowers, thanks to a wedge of technological and financial innovation. And that is doubtless true. Human—humane—qualities, such as fair judgment, personal initiative, prudent discretion, and so on, were written out of the exercise. Technologically sophisticated risk-based pricing systems formed the sole, if seemingly rational, benchmark for mortgage underwriting. Credit scoring, affordability tests, and automated valuation models gave lenders all they needed to determine the size and price of loans. The same technologies gave investors a guide to the risks and returns of exposures to different segments of the market. No direct contact with borrowers was required, and the more the chain of accountability was lengthened, the less institutions needed, or cared, to know about their clients' personal needs and social circumstances, much less their motivations and behaviors.

Nor, as Immergluck's (2009) incisive investigations so sharply point out, were lenders inclined to pay much attention to the activity of brokers, or worry about the extent to which they were incentivized (by commissioning fees) to mis sell expensive and risky products. After all, a growing number of mortgage originators (nonbank lenders) were in business solely to sell their loanbooks. They had no financial interest in the life of the debt, or the welfare of the borrower, beyond that point. An appearance of rationality also masked the fact that investors in turn were encouraged by law not to ask questions (to avoid liability should their investments turn sour). It was only later that analysts noticed that credit-rating agencies (who were paid by bond issuers, not investors) had a financial incentive to underplay even the risks they could measure. In short, if the problem so far has to do with the distancing of lenders from borrowers, it looks in hindsight as if this is less by accident than by design; certainly, it was convenient.

This distancing set the scene for borrowing, lending, and trading in debt to flourish financially long after it was sustainable—far beyond households' capacity to repay their loans, and long after home prices could underwrite the default. But as well as causing institutions to fail, this process was brutalizing for individuals. It drew institutions and the individuals that operate them into a spiral of carelessness that stripped wealth out of homes and neighborhoods without a second thought. Arguably, no individual was wholly responsible for everything that went wrong, and many actors were simply doing their jobs. But on the other hand, none proved able or inclined to call a halt, and in this respect the process of distancing was part and parcel of the institutionalization of

carelessness. When values are institutionalized, they are built into routines, codes of practice, rules, regulations, and conventions by which organizations operate. Individuals do not *have* to operate discriminatory, exclusionary, or brutalizing procedures, and must bear responsibility for their actions when they do; at the same time, though, they are cogs in a wheel whose wider trajectory is not always easy to see. Institutionalized carelessness can be self-evident; equally, it may be subtle rather than explicit, ingrained rather than obvious or intrusive. It is a style of inhumanity that is much easier to reproduce than to recognize, much less to interrupt.

Even then, it is hard to see why the ramifications of the “American Problem” should have exerted such wide-ranging effects. Partly, the answer is that it was never nationally contained. Even though mortgage securitization occurred on a smaller scale in the UK, and indeed Australia, than it did in the United States, cheap and abundant credit became the thin end of an unsustainable wedge of debt in these jurisdictions too. Even though housing finance and financial services generally were less regulated in the United States than in some other jurisdictions, misselling at the margins was a growing concern across the board.

Nevertheless, a booming market for collateralized debt obligations (CDOs) should have spread investors’ risks across a basket of loans, in bonds that included all kinds of mortgages and many other borrowings too. This at least should have contained the risks to the global financial system. But CDOs were in practice heavily weighted to residential mortgage-backed securities (RMBS), and a great deal of other debt was in fact anchored on housing. As a result, the default risk of CDOs was, by some estimates, up to five times greater than on similarly rated corporate bonds (Immergluck [2009] again writes crisply on this).

The fallout should, nevertheless, have been minimized by rapid growth in the early 2000s of a trade in credit default swaps (CDS)—financial markets’ answer to insurance. It was not. The common argument is that these instruments were simply unable to cover the magnitude of loss when mortgage markets failed and loan-backed bonds lost value; that is, there was a collective failure to recognize the risks. My suggestion, however, is that credit default swaps were in the money not because the risks were hidden (though I accept that the instruments were complex and obfuscatory), but, on the contrary, because the risks in the underlying bond markets were rather clearly visible to those who cared to look (this is the leitmotif of Michael Lewis’s [2010] crushing account *The Big*

*Short*). CDS were suddenly very attractive, but not, it seems, to those most exposed to RMBS and home loan-heavy CDOs. The CDS market was brought to life instead by investors who were prepared to gamble on the hunch that the credit bonanza would end in tears. When it did, the “insurance” vehicle failed to protect those most exposed to risk, partly because the risks were so high, but equally because the right to so much of the payout was not owned by those who took the loss. So once again, it seems plausible to suggest that dealings in debt have been driven by the institutionalization of carelessness. The problem does not simply reflect the failure of efficient markets, the difficulty of tracing risk, or the uneven hand of fate. It reflects, rather, the limited visibility and accountability of the workings of institutions whose lack of respect for human values was ingrained in their operation.

#### IMMORAL MARKETS?

Dealings in debt in the twenty-first century were driven by the idea that the more diverse, extensive, and “complete” such markets are, the more rational and efficient their operation will be and the better they will serve investors and consumers. In practice, however, this vision of amoral yet efficient markets was never fulfilled. Arguably, in fact, the more the mechanisms for completeness, perfection, and rationality were applied, the more mortgage markets proved to be soaked in sentiment: infused with a mix of virtues and vices, but institutionally dominated by immoralities that are critical for understanding and resolving the economic shocks of the past five years.

It is in this context that the integration of mortgage and financial markets has proved to be dangerous. The story I have sketched above is one in which the vices of unregulated financial markets eclipsed the virtues of unconstrained borrowers and hijacked the hopes of governments that had looked to owned housing as a panacea. And as we continue to work with the household-level data, my hunch is that we will find that when care-full consumers operate in markets that care little for values outside the bottom line, then debts will always be dangerous and individuals will have far less opportunity than institutions to make the most of their wealth.

This may imply that dealings in debt have been irretrievably tainted by the links between mortgage and financial markets that drew households’ accounts into global financial affairs. But this is far too neat. More persuasive is the thought that questions of morality and immorality infuse

the mechanisms of markets, and that the latter has been privileged by the dynamics of debt in the twenty-first century. There is, however, nothing “natural” or accidental about this; it is the consequence of a far-reaching institutionalization of carelessness. That fact may be uncomfortable, but, on the other hand, it raises the real possibility that things could be different. Institutionalized discriminations have, after all, been tackled before. So as far as the question of the compatibility between markets and an ethic of care is concerned, the answer for now is that it is not entirely a mirage (borrowers, we know, may be motivated by compassion), but is somewhat short of a miracle.



## LECTURE II. ETHICAL INVESTMENT? ATTENDING TO ASSETS

This second part of my discussion takes up the popular idea that attending to assets must be a good thing, a more virtuous preoccupation than dealings in debt, especially when those assets are as “safe” as houses. Perhaps, then, focusing on the asset side of the housing equation is a route to righting the wrongs at the heart of the credit crisis?

Homes are not just investment vehicles, of course, and I shall question the extent to which they should be. Residential property is, nevertheless, big business, forming the world’s largest single class of assets. In the UK alone, by the end of 2009, notwithstanding a downswing in the housing cycle, the housing stock was worth four trillion pounds, about four times its value in 1995. This accounted for more than 60 percent of the nation’s personal wealth and more than half the net worth of the typical home buyer. And notwithstanding the lending bonanza of the new millennium, less than half this wealth is mortgaged. The situation is less rosy in the United States, where outstanding mortgage debts more than doubled between 2000 and 2008 (so that, here, only one-third of housing wealth is *not* mortgaged). Nevertheless, the stock of housing is still worth a massive eighteen trillion dollars, and it forms the centerpiece of the majority of domestic wealth portfolios. The majority of other “home-ownership” societies have rates of unmortgaged housing assets somewhere between these benchmarks.

My first concern is whether this asset orientation in housing is inherently a good thing. This was certainly the political presumption for between fifty (in the UK) and a hundred years (in Australia and the United States), so that households received a strong steer toward the ownership ideal. Elsewhere, I have written about a style of politics—Nikolas Rose calls it an ethopolitics—that advances the case for home purchase by infusing economies and societies with discourses, practical acts, contractual arrangements, and financial incentives that valorize housing systems centered on owner-occupation (Smith 2008). I have also been involved with a series of qualitative research projects, particularly in the UK, speaking to households who have bought into owner-occupation over periods of many years. Some stories firmly position home ownership as preferable to the costs and constraints of renting; some home buyers regard housing as a tax-advantaged investment that is more legible than stocks and shares and safer than pensions. Whatever the rationale, there is

a strong view in the wider public that home purchase is both a wise use of money and a hallmark of good citizenship. And these views are not held without reason. Housing is the only financial asset that most households own, the only investment for which they can obtain significant leverage, and whose capital gains are tax free. Residential property performs well on average and in the long run, and in some jurisdictions (the UK is one) has a slightly equalizing influence on the overall distribution of wealth (even though such wealth is still highly skewed to the better off).

But the truth is that owned homes are a very peculiar style of wealth holding: an indivisible package of housing services with a lumpy investment vehicle whose financial values wax and wane with a mix of economic fundamentals, emotional energies, and political imperatives whose effects remain to be specified (Smith 2011). This exposes households to a suite of investment risks that are rarely acknowledged, barely understood, and largely uninsurable. Such risks (that home values will fall, that only half will perform above average, that house prices will not keep pace with other investments, and so on) are not new, but the more housing provides the *de facto* asset base for welfare (as I argued earlier that it does), the more the significance of these investment risks is underscored. So the popular English phrase “as safe as houses,” like the substance of the Australian and US housing “dreams,” has fragile foundations, even without the effects of financial crisis. If we combine the extent to which mortgage debts have proved dangerous with a recognition that the assets underpinning them are risky in all kinds of ways, and if we observe just how closely these risks are linked, it is hard to escape the charge that the home-ownership societies that we have looked to for so long are, like the financial system that drives them, irreparably broken.

How should governments manage this charge? Scholars have spent many long hours determining what went wrong with the housing economy in the first decade of the twenty-first century. Analytically, there may be little left to say. However, rather less attention has been paid to the challenge of how to put things right, and that is what I wish to prioritize here. Normative theorizing—speculating on what the world could and should look like in the future—is something that theorists have, ironically, paid less attention to of late than they did a half century ago. In an attempt to redress the balance, in the remainder of the discussion, I consider four visions for the future. My argument is that while most energy has in practice been devoted to dealing with debts, the best hope in the end is to attend to housing assets, though not quite in their present form.

## BACK TO THE FUTURE

Implicit in most critiques of the credit crisis of the mid-2000s is the claim that housing, mortgage, and financial markets have become far too closely linked, drawing households' accounts into a deepening pool of global financial flows with damaging consequences. The best hope, from this perspective, is to draw back, to reduce lending and unwind debts. This ironically simple solution was neatly captured by cartoonist Neil Kerber, who, early in the crisis, depicted a scene in which shoppers were offered a "crazy new scheme" to finance their purchases. The marketing slogan was "Buy now, pay now!" Few could argue with the wisdom of this. It is the moral of the housing story: limiting lending and curbing credit are obvious ways to prevent the accumulation of household debt. However, if we are starting from "here," rather than from the days when consumption was funded from savings and mortgage debt was used only to buy homes, then the crazy—albeit appealing, cost-effective, and financially sustainable—new scheme is unlikely to work. Abolishing debt and looking to assets is not a solution that helps those already in arrears (unless those loans are written off); it offers little solace to those reliant on borrowings to supplement incomes. Neither does it address the investment risks inherent in the model of owner-occupation that still dominates the more developed world. So "buy now, pay now" is attractive, but unworkable, for the moment at least.

## BUSINESS AS USUAL

Most governments' responses to the recent financial crisis fall into the category of "business as usual." That is, the broad aim is to restore lending and borrowing, albeit in a somewhat more regulated financial environment. The majority of these measures are designed primarily to tackle credit risks in housing markets. Where households are concerned, they are about helping those who can to stay in their homes and service their loans. I review these schemes elsewhere (Smith 2010). Most depend on government-supported lender forbearance, allowing households to defer interest or roll up capital repayments (or both) in the hope of better times ahead. The Australian mortgage-rescue scheme, for example, included a payment "holiday" for up to a year; the UK home-owner mortgage-support scheme allowed up to 70 percent of interest payments to be rolled up over as much as two years. The US home-owner stability plan was more innovative in planning for a real reduction in payments.

Crucially, however, none of these interventions reduces the capital owed on overpriced homes; none addresses households' investment risks; none makes use of the housing assets whose titles home buyers hold, even when they dip into negative equity. Furthermore, none of the schemes has been widely used, and several are already wound up.

Even if "business as usual" were achievable, Paul Langley (2009) argues in a wide-ranging critique, the concept of forbearance locates the challenge too squarely in the hands of households to be viable. On this model, it is they (the borrowers) who are delinquent. Ostensibly virtuous lenders accommodate this, not by sharing risks or recognizing their part in enabling the crisis of personal debt, but by trusting that their income streams will resume if households are supported toward recovery. The normative assumption in all this is that borrowing is functional and essential, it oils the wheels of the wider economy, and whether secured against property by households or leveraged in other ways by institutions, restoring order in credit markets is key. This may not be an unreasonable position; it may even, to an extent, be necessary. But for the future, it is certainly not sufficient.

#### VARIETIES OF CAPITALISM

The seeds of a substantially different approach are contained in a literature flourishing under the broad heading "varieties of capitalism." This is a large, wide-ranging body of thought, and I am mainly interested here in the version developed in the collective work of J. K. Gibson-Graham (1996, 2006). The broad message in these works is that even in a globalizing economy, with a strong leaning to a particular style of capitalism, there is no singular model of how economies actually function. It follows that, even under "residential capitalism," there is far more diversity in the housing economy than is commonly recognized. This much is clear from Schwartz and Seabrooke's (2008) "map" of the many different combinations of home ownership and mortgage debt existing even in the more developed world. There may be a sense of convergence toward the mortgage-backed, ownership-centered housing systems of the English-speaking jurisdictions, but not all economies are near that position. It follows that even those closest to the extremes, in principle, have space to draw back. To that end, they might do worse than look for inspiration among the "whirlwind of inventions and interventions" already present in actually existing housing markets.

A closer look at this whirlwind reveals a surprising degree of experimentation with the equity side of housing. One option, of course, is to vary

the size of the rental sector, and there is much to be said for that. A larger rental sector might provide more choice, facilitate residential mobility, and offer greater movement between tenures. It also reduces the necessity for marginal owners to take on too much debt. It does not, however, bridge the financial divide between tenures—a divide that enables home buyers to leverage their housing investments, yet prevents renters from buying into the (tax-advantaged) returns on residential property at all.

Other options are more intriguing, not least because they offer the potential to share investment as well as credit risks. This is achieved, for example, when households buy into housing cooperatives, or enter shared-ownership, or shared-equity, arrangements. Innovations in Islamic finance even include options effectively to lever these investments without taking on conventional debt. Critically, all these schemes reduce entry costs and spread the investment risks of home occupancy, often in imaginative ways. Many are based on partnerships between households and institutions. Some equity-share arrangements are even designed to enable home occupiers to vary the proportion of their home that they own—they can “staircase” up and down, in steps as small as 5 percent, in order to adjust their housing investments to fluctuations in income and expenditure.

These experiments contain the seeds of a solution to housing’s financial crisis that uses the equity side of the housing equation in a more sustainable way than the “whole-ownership” model that dominates today. What is striking, however, is that attempts to establish and grow these schemes have repeatedly met with limited success. The reasons are becoming apparent from studies of the market for equity share, which are best developed in the UK and Australia. Key, according to Whitehead and Yates (2010), is that schemes in both jurisdictions lack buy-in from institutional partners. The reasons for this include the real and reputational costs of directly holding physical shares in residential property and the illiquidity of that market. In practice, therefore, most institutional partners are social housing agencies, and, as a tenure type, shared equity—while growing in popularity—is seen mainly as an affordability aid on the margins of ownership rather than a sustainable alternative tenure. Wallace’s (2008) review in the UK shows further that, from the point of view of the occupying partner (households), the costs of “staircasing” are often too high, and the transaction far too sticky, for the most flexible elements of the scheme to work. In practice, moreover, most enter the tenure with the aim of staircasing up, and this simply reinforces the “whole-owner” ideal,

rather than creating something new. So these solutions reduce entry costs and enhance sustainability, but only marginally affect the mix of credit and investment risks that underpinned the recent crisis.

#### GETTING EVEN

To secure a solution for the mainstream, I turn to the challenge of “getting even,” of finding an equity solution that works across the board to challenge the dominance of debt as a driver of housing economies. If this subheading has a menacing edge, however, it is deliberate, because the mainstream solution requires the involvement of financial engineers. To make the best use of housing asset-based solutions to the mix of problems in the housing economy today, we would need to be able to take the existing model of home ownership apart, separating the cost of housing services from the price of the associated investment vehicle and making the investment element optional and incremental. It would then be possible to buy into the fortunes of the housing market without (necessarily) owning (or occupying) specific properties at all. The means to this end, however, are instruments traded on financial markets, in the form of housing, or home-price, derivatives.

The *D* word is the unsettling element. Because of the credit-derivatives debacle, resorting to such instruments today is at best a two-edged sword. The literal part of the label “getting even” nevertheless refers to the fact that while mortgage and financial markets have been closely linked for some time (as discussed earlier), housing markets have not been part of this nexus. Housing assets have never been traded in any volume in synthetic form. Yet to harness the best of the “varieties of capitalism” options for a broader cross-section of the housing system—to create something really new for the housing mainstream—it is hard to imagine a solution that does not turn to instruments of this kind (contracts derived from home prices that are traded on financial markets).

Before considering the options such instruments might confer, it is important to remind ourselves what derivatives actually are. They are, at their simplest, financial contracts whose values derive from the price of an underlying asset, security, or index. Because they can be traded independently, they are both an investment opportunity and a means of transferring market (price) risk between parties. To be sure, financial engineers have the capacity to use their mathematical prowess to create instruments that are unnecessarily complex and dangerously opaque, but that does not mean they cannot be required or regulated to design contracts that are simple and

transparent. Such contracts could, in theory, even be exchanged in settings other than financial markets as we think of them today; certainly, trading platforms could be more open and transactions held closely to account.

Whether we dare go there depends in the end on whether particular moralities are inherent in the character of financial markets. The critical view, with which it is hard to quibble, is that the financial deepening that such markets imply is a process of “capital switching,” whereby crises are relocated from one circuit (e.g., labor markets) to another (e.g., the housing economy) rather than resolved in ways that work in the interests of the investment community and do not benefit the real economy. I think of this as the fictional “Gordon Gekko” model of financial markets, the epitome of all that is greedy, selfish, and unvirtuous. It is clear, moreover, from the many accounts of financial crisis now available that this model has all but made itself true.

However, there is another, much simpler, account of the role and character of financial markets, which is that they were invented as platforms on which to trade instruments designed to spread the gains and share the risks of holding both assets and debt. This safety-net model of financial markets is deservedly the subject of ridicule, given the way it was (mis)used for the management of debt. But what if that model *were* workable, or could be made true, in relation to housing assets?

I have argued before that there is both an economic logic and a social case for instituting such markets. In brief, as we have seen, housing investors are overexposed to property risks, are vulnerable to price volatility, and have no protection or insurance against capital loss. Accordingly, economists have argued that access to housing-price derivatives would benefit most households—even, perhaps especially, poorer ones—looking to manage their risk exposure (Iacoviello and Ortalo-Magné 2002). Perhaps the best-known exponent of this is Robert Shiller (2005, 2008a), whose own work centers on the United States; Quigley (2005, see also 2006), at the same time, goes as far as positioning such instruments as the way to improve the welfare of European housing consumers “at practically no cost.” Furthermore, because housing is expensive to hold, is slow and costly to trade, and has other complications (it is indivisible, supports few secondary markets, and offers no real possibility for incremental investment), major investment portfolios (and renters) are underexposed to residential property, even though it is a major asset class. There is then a reason for investors to buy such instruments and for property owners to sell (or hedge); there is a rationale for such markets to thrive.

Those who find this idea deeply disturbing, nevertheless, can take heart from the fact that, notwithstanding its logical and intuitive appeal, the market for housing derivatives has never gained traction. The first attempt to launch exchange-traded house price-linked instruments was made on the London Futures and Options Exchange in 1991, and trading closed within months of its opening. A small over-the-counter market picked up in the UK about a decade later, and in 1996 the Chicago Mercantile Exchange tried again to create a liquid market in options and futures based on US home prices. When that stalled, the New York Stock Exchange opened an exchange-traded fund for home prices, but that too appears to have hit the doldrums. So, unlike pork bellies, oil, gold, mortgage debt, and much else, the world's largest financial asset has never been substantially traded in derivative form, and at the moment it does not look like it ever will be.

Personally, I find this curious, and elsewhere I have tried to account for it (Smith 2009). It probably has to do with a cultural divide between housing and financial market professionals, with the construction and licensing of price indexes, and with the design and regulation of the contracts. There are other factors too, but I am not convinced that any of them is insurmountable. In view of that, and armed with the thought that the simple, or safety, model of financial markets could be made true, I have given some thought to the products and policies that could be designed should a market for housing derivatives gain traction. These too are laid out in detail elsewhere (Smith 2010, 2012). (Some individual elements are elaborated in the chapters collected as part 3 in Smith and Searle 2010; the ongoing work of Robert Shiller [e.g., Shiller 2008a, 2008b, 2009] also informs this overview.)

It is important to note that some market developments imply that households could and should manage housing derivatives directly. The advent of "hedgelets" in the United States, for example, encourages small-value, futures-type trading in a wide range of economic events and price movements, including, in the past, housing. The UK spread-betting industry has also offered options of this kind. But homes are too precious to risk in this way. Individual solutions are not, in my view, a viable answer. On the other hand, policy makers and institutional providers could use options, futures, and swaps based on an index of home prices to meet a number of practical ends. This could be achieved through new financial products, mortgages that break the mold by offering comprehensive (credit and investment) risk sharing, or public policy initiatives



in which government effectively takes positions in a new type of financial market. However delivered, the result could be in the form of asset-based or equity solutions to problems that, if currently addressed at all (and many are not), depend on managing or adding to debts. Here, then, is a summary of what, in theory, might be achieved for housing and urban policy if a well-regulated trade in such instruments was wisely used.

First, there are access and affordability gains: homes would be cheaper if purchased without some or all of their linked investment vehicles; existing housing outlays would be less if borrowers offset their mortgage repayments against the future values of their homes. Second, there is the potential to promote financial inclusion and diversity, by creating a viable alternative to property ownership for those (renters or buy-to-let investors) who wish to share in the fortunes of the housing market. Third, and particularly important in the current climate, is the very real possibility of managing mortgage arrears not by postponing and rolling up debts, but by making use of the fact that home buyers own the title of a property whose future value is tradable. Selling future price gains to institutional investors may not be ideal, but it is surely preferable to unsustainable debt or eviction. Fourth, these instruments offer the novel possibility that households could not only spread the risks of housing investments beyond a single property, but also insure the value of their home against, for example, neighborhood decline. Fifth, and most important of all, such innovation has the potential to allow politicians and policy makers to transform whole housing systems.

The last bears elaborating. A market for housing derivatives could (but would not necessarily) be a means of transforming whole housing systems in the interests of home occupiers. It could be a route to creating a more affordable housing stock, in a system that is effectively tenure neutral because every home is part “rent,” part “own”; part housing service, part investment vehicle. At the very least, such instruments encourage a rethinking of the tenure divide, provide an opportunity to put “homes” back into the ownership equation, and pave the way to taxing the returns on housing investments in line with the treatment of other assets.

#### CAN MARKETS THAT WORK BE INSTITUTIONS THAT CARE?

I am not naive enough to think that a radically transformed, more inclusive, and less unequal housing system is the only financial future available should “getting even” prove viable. However, I am prepared to argue that the difference between the critical and safety-net models of financial

markets is not a matter of fact, but a question of will. The safety-net model, if it is ever to obtain, has to be made true for the future, just as the Gordon Gekko model was allowed to dominate the past. “Getting even” in the context of housing is about paying as much attention to investment risks as to the dangers of mortgage debt. “Getting even” more broadly is about challenging an enduring consensus concerning the singular character, rational operation, and ethical neutrality of markets.

Discussing this consensus, geographer Jamie Peck talks about scholars’ tendency to defer to “an idealized market” and to rely on that abstract market as a foil. He notes, too, an insistence on placing this vision for markets “at the other end of the spectrum of more socialized versions of the economy” (2003). Such binary thinking is entrenched in the popular wisdom; it creates an unbridgeable gulf between amoral markets that work and social institutions that care. It leaves unquestioned a social democratic norm that turns on the efficacy of efficient markets for the mainstream majority and the benevolence of “welfare spaces” outside those markets (for example, social renting) for the residual minority. This has allowed a particular style of mainstream market order to survive, not, in the words of John O’Neill, because it is the “best,” but rather because “it is so tied into all human relationships that construction of an alternative becomes increasingly difficult to build or even conceive” (1998, 203). The ultimate irony here is that, armed with this mind-set, policy makers increasingly find it reasonable to inject market principles into social policy, yet fail to recognize the scope to build welfare ideals into the economic bottom line!

Yet a moment of crisis throws all this into the air. It provides an opportunity to rethink accepted wisdoms, to reconsider how markets could and should work. After all, markets have in the past been celebrated as civilizing forces, infused with cooperative as well as competitive energies. And markets that seem uncivil today may be as much a result of the “performativity” of economics as the property of an immutable economic fact. In which case, in the words of sociologist Donald MacKenzie, if economics “helps bring into being the world it postulates, rather than simply describing an already existing external world—then an intriguing question is raised: might it be possible, even in high modernity, to perform a different economic world?” (2004, 98). And if the answer to that intriguing question is yes, as I suspect it is, then even if market institutions are seemingly immutable inheritances, they are institutions that, nevertheless, “we may properly alter and reform so that they better contribute to human aims” (Gray 1992, 74).

For clues on how to alter them, we might, as I have hinted before (Smith 2005), reasonably look to the diversity of actually existing markets. These, as we have seen, are driven by a multitude of normative goals, embrace myriad values, exude virtues as well as vices, and cannot operate without qualities such as love, affection, obligation, reciprocity, and connectedness. If these elements—the ingredients of an ethic of care—can be rescued and practiced, then the varieties of residential capitalism introduced above constitute an enormous political resource.

So my concluding suggestion is that some elements of visions three and four—visions that harness assets rather than extend debts—might hold the key to a fairer financial future for the housing economy. Such markets could potentially embrace the care-full characters that mortgagors often are, by making use of simple, transparent financial instruments in which the incentive to carelessness that brought market institutions into disrepute has no space to flourish. Such markets could make the best of otherwise risky assets by discouraging overinvestment into overpriced vehicles and putting an end to the financial exclusions that a sharp tenure divide implies. Such markets may, indeed, help split apart the binary housing system that characterizes the home-ownership societies profiled herein and start to build a quite different residential world.

In that context, instead of offering nations of home owners a stark distinction between the option to own a home in its entirety (the ideal) or to rent (in a residual sector), housing systems may one day comprise “a thousand tiny tenures,” in which every property would be a heterogeneous mix of occupancy rights, title ownership, and investment vehicle. Collectively, this mix should decenter the structure of owner-occupation, or challenge the tenure binary, much as Elizabeth Grosz’s (1993) “thousand tiny sexes” undermines the dominance of “man” and the gender binary his opposition to “woman” implies. In this heterogeneous housing system, markets of mortgagors might be turned into societies of home stewards as a broader mix of individuals and institutions gains an interest in, and assumes responsibility for, the quality, condition, and future of the housing stock. In this tenure-neutral housing system, where consumption and investment are uncoupled, there might, finally, be the option to recover the meaning of home.

It seems that there could be something miraculous about markets after all. The detail has yet to be excavated, but it may be that housing, which builds such a fragile bridge between the well-being of individual households and the resilience of whole economies, could lead the way. Perhaps

there really is, in the midst of financial dislocation, an opportunity to make markets compatible with an ethic of care. It must, at least, be a prospect worth exploring.

#### CONCLUSION

This essay as a whole—drawing together the threads of two Tanner Lectures—is, in its broadest sweep, a comment on the compatibility of market-dominated economies with an ethic of care. Residential property is a powerful touchstone for this debate, so the discussion is also a reflection on the nature and future of housing, mortgage, and financial markets. This latter challenge might usefully be approached as an exercise in economics. However, properly to excavate the morality of housing markets, to tease out the multiple values that drive them, and to consider their future potential, an interdisciplinary approach is apposite.

I began by discussing the dilemmas of debt, suggesting that, for home-buying households, equity borrowing has turned residential property into a *de facto* asset base for welfare. Such borrowings are not so much a route to easy money as a last financial resort, typically invoked to cover potentially bridgeable gaps in liquidity, among households who have pressing needs and reasonable financial competencies. In that sense, mortgagors are as likely to be careful consumers as stereotypical “duped debtors” or “spirited spenders.” They are, nevertheless, pawns in a risky trade-off whereby high rates of highly leveraged home ownership have substituted individual self-provisioning for social safety nets or collective insurance. That trade-off drew domestic borrowers’ balance sheets into global financial flows, where dealings in debt were altogether less distinguished. Thanks to the institutionalization of carelessness, the vices of unregulated financial markets have eclipsed the virtues of liquidity-constrained borrowers, raising three pertinent points. First, mortgage markets—like any others—are soaked in sentiment. This is integral to how they work. Second, to the extent that questions of morality and immorality are at the heart of mortgage-market dynamics, it is the latter that institutions have privileged. Finally, the motivations and behaviors of borrowers belie the notion that this is “natural”; there are moralities in the *mélange* of the market, and these ethical prompts could, in principle, be recovered, shared, and instituted.

The second part of the discussion considers the prospects for achieving this—for making markets more “care-full.” Attending to assets seems less controversial than dealing in debt, and so provides an appealing route to this end. But mixing the right to shelter and the meanings of home

with an imperative to invest brings problems of its own. In considering a way forward, I make three core points. First, while there are qualities that money cannot buy, and goods that markets should not deliver, housing is probably not among them. So where property is concerned—as with many other goods and services—there is a reason to bid *for* markets rather than to argue against them. Second, to that end, it is time to break out of a consensus on the nature of markets, which has located—or more properly misplaced—some important human virtues outside the economy. Finally, I argue that with sufficient political imagination, encased in an ethic of care, it might be possible to use existing financial tools to turn markets of mortgagors into societies of home stewards, detaching housing assets from home life, and managing both of them more wisely.

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