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ByRandy Martin

As the US subprime mortgage crisis plays out, the dual morality of its victims' treatment becomes stark. But, Randy Martin explains, bailing-out the banks while leaving defaulters to rot is just the latest in a 30 year campaign of ripping off the American working class

It seems everywhere we look, the subprime crisis is upon us. Yet the meaning and politics of what we see is far from clear. Crisis, when applied to business, means looking down the lane where the rest of us live. Theirs is a problem in need of fixing. For everyone else it's a matter of making sure they know they need another fix. Crisis lays bare the twin morality tales that underpin what it means for labour and capital to live their normal lives. Capital gets moral hazard, and labour, moral panic. Moral hazard, the worry that government bailouts of big business will encourage more bad behaviour, is typically a form of fretting after the fact. The most notorious recent act, 16 March, 2008 to be exact, was when Morgan Chase was handed Bears Stearns to feast upon, in a deal engineered by the Treasury Department and the Federal Reserve Board which issued a \$29 billion credit line to the new owner and took hold of another \$30 billion of collateral at taxpayers expense.ⁱ Moral panic is the anxiety of contagion when publicly designated bad subjects are allowed access to the pen of good conduct. Here is *The New York Times* describing the fear that the foreclosure disease might spread:

Until recently, people with good credit, who tend to pay their bills on time and manage their finances well, were viewed as a bulwark against the economic strains posed by rising defaults among borrowers with blemished, or subprime, credit.ⁱⁱ

Note that subprime here refers not to jacked up interest rates, but to a type of borrower, one who is discoloured, disfigured, or cannot make the grade. The spectre of subprime is that the bad will haunt the good, and that the nearly two million mortgages at low introductory rates set to expire in the next year will unleash more waves of collective nausea.

Contrary to arbitragers who bet for a living on interest rates going up or down and deserve a rescue operation, those who had little to begin with and are forced to abandon their homes are considered speculators by US Treasury Secretary Henry M. Paulson, Jr. Says he, "Washington cannot create any new mortgage program to induce these speculators to continue to own these homes, unless someone else foots the bill."ⁱⁱⁱ While securitised bundles of mortgages are being discounted and repriced to appeal to lenders (that somebody else Paulson is willing to subsidise), the possessions of those dispossessed of their homes can wind up in self-storage units that sell off their bundles for a handful of dollars when the payments are overdue. The 51,000 self-storage facilities in the U.S., once used for the overflow of consumables that could not fit in a residence, now house the shards of broken homes. Dean Jernigan, head of the U-Store-It Chain, says, "People are moving back down the property ladder."^{iv}

Subprime was all about getting people to move up to property. Like the wages of whiteness, whereby immigrants were invited to trade in their swarthy particularities of ethnicity to huddle with the master race, this might appear to be another saga of becoming unblemished. Indeed, home ownership in the United States peaked at the end of 2006 at 69 percent before sliding down to its current rate of 67.8 percent after the recent waves of foreclosure. Positing a natural drive to ownership omits the coercion at the heart of the market organism said to grant all their rightful emancipation. The carrot for ownership was doubtless the 66 percent gain (controlled for inflation) in home prices between 1998

and 2005. The stick was declining real wages. At the same moment that ownership spiked, workers' collective share of national income was the lowest since such figures began to be kept, while corporate profits hit a forty-year high. This decline in real income during a time of economic expansion and increasing productivity was a first, and one that effected nine out of ten workers.^v The twenty-dollar an hour wage, a benchmark for the affluent worker, has fallen in every sector of the economy but seen a 60 percent decline in manufacturing.^{vi} In the 1980s and 1990s wage inequality was on the rise both across industries and within individual companies. During the same period, unionisation fell from 20 percent of the workforce in 1983 to about 13 percent in 2003 (excluding governments workers of whom 37 percent are unionised, the private sector rate is lower still at just over 8 percent). Without expanding unionisation, the value of the minimum wage declined, at the same time that lower paid immigrants increased to 15 percent of the workforce.^{vii}

Economist Rick Wolff ties the decline of wages to the advent of a credit economy. He observes that the 'solution', when longer work hours did not generate enough money to increase consumption, was to borrow.

Multiple credit cards per family and increasing mortgages added to vehicle financing to generate historically unprecedented levels of total consumer debt across the last 25 years, and especially since 2000. March and April 2006 saw negative real savings rates for the public of 1.5 percent. Nor do these stark statistics count the vast sums that adult children increasingly 'borrow' from their parents' savings.^{viii}

The promotion of a credit economy, through direct and indirect government policy, accompanied all manner of initiatives that replaced welfare state security with individual's capacity to assume and sustain financial risk. When this works, the person reaps the rewards of self-management, when it fails people become speculators who can spread terror and place good subjects at risk. The new economy gibberish which tried to convince potential investors that the business cycle was over and they could find safe harbour in stocks that would go up forever in a virtuous cycle, simply got transferred to the real estate boom. Who needs unions (or politics) to induce higher living standards when ownership of a home whose value expands forever does the same thing and is so much more comfy. So buy today.

Now, some nine million US households (more than one in ten) owe more on their single family home than it is worth. In exchange for not having any money to put down (and therefore no equity to walk away with), the subprime set simply get charged more for the privilege of being in debt. As such, it is a crafty reinvention of the nasty practice of redlining, whereby certain neighbourhoods are excluded from bank services because of their risk of default. Redlining had suppressed ownership rates among workers and people of colour and left financial services a cottage industry for loan sharks, pawn shops and other local entrepreneurs. Like the discovery of some new native population, mineral rich land, or underexploited environment, the blemished credit of the working impoverished became fodder to large returns in the hands of subprime, microcredit, and other economic enclosures of the hitherto unbankable. The 1977 Community Reinvestment Act (CRA) required banks to lend throughout communities where they previously had not. Thirty years later, in response to such regulations (and abetted by others, i.e. deregulation), mortgage initiating and other financial services had taken flight from conventional banking institutions in an institutional free-for-all known as 'disintermediation'. By the time that the crunch came along, half of the subprime loans came from companies not covered by the CRA and another quarter from subsidiaries banks spun off to be free of it.^{ix}

The bait and switch of subprime is that it is a way to market social pain. The move from exclusion to enclosure signalled by the deregulation of redlining carved up the unevenness by which greater gain could be extracted while punishment falls to the newly speculative. Just to take New York City as an example, in Jamaica Queens, with a black majority and \$45,000 median income, 46 percent of

mortgages were issued by subprime lenders. For mostly white Bay Ridge in Brooklyn, the corresponding rate is 3.6 percent, for a population with a median household income of \$50,000. Even for more affluent households the racial divide is sharp. For non-hispanic whites, 24 percent took out a subprime mortgage in 2006 while the for blacks 63 percent did.^x

The typical profile of foreclosure is that it is concentrated among lower income housing stock, disproportionately multi-family, among those who put no money down to buy their home and have owned it for a short period of time. Also typical is withholding information to new purchasers about how the adjustable rates work and how first time buyers can receive assistance.^{xi} Whereas the last time mortgage defaults erupted when home prices fell (12 percent between 1990 and 1996), 15 percent of those in arrears had owned their homes for less than three years. In 2007 (during a one year period when housing prices went down 6 percent), nearly half had owned for three years or less. One in four subprime mortgages ended in foreclosures as opposed to 7.3 percent for all mortgages.^{xii}

The ambivalent consequences of moral panic have left public remedy in a bit of a muddle. A bill that would facilitate resale of bad debt looks like it might reward the blemished, while inaction prepares the ground for a new speculative assault. The disaster naturalises the sense of who must pay when things go awry so as to justify the uneven pricing of debt that gave the subprime industry its impetus. For this reason it is important to pay attention to the kinds of demands and claims that can be made when the bits of eggshell lie at the base of the wall. Across the country, there are many moves at local, state and federal level to reposition government institutions such as the public land bank authority and the Federal Housing Authority (a depression era bureau that Congress has asked to take on \$300 billion of bad loans). Unsurprisingly, the Bush administration wants none of this. What is perhaps more interesting than the tension between reallocating suffering and refloating the whole ownership vessel, is the way in which this episode has politicised housing as such.

Home ownership is meant to be the pillar of private life and an impregnable partition between the public realm of social goods and claims, and the domain of personal affairs. Of course tax codes, deregulation of financial services and monetary policy are all government measures that help to engrave this separation between the political and the personal. Just as home ownership was a salve to declining wages that claimed to give labour a stake in expanding capital markets, the subprime fiasco displaces the political into the hallowed realm of the private. Even in a progressive formulation, housing is no longer simply a human right, but has now raised the question of how best to steward massive accumulations of social wealth. Whatever repairs are administered to get subprime lending on the move again, the shift from personal holding to social wealth will continue to mark future housing struggles. Civil Rights groups like the NAACP have called for a debt moratorium as Fidel Castro had when the likes of Citibank tried to fashion a permanent debt relation to the Third World. Back home, where consumerism seemed to be able to separate politics along the lines of discrete interest groups, the spread of unmanaged debt seems poised to bring these categories together. Student loans are now being denied to the largely minority and working class matriculants of community college by Citibank and other private lenders who prefer to stick with the elite in selective colleges.^{xiii}

Pressures are on a government highly recalcitrant to supporting public goods, to step up and begin a national socialisation of risk for the poor that it was reserving for the wealthy. Legislation for a federal Housing Trust Fund dedicated to low income housing and modelled on scores of state and local pools of public monies, is pending in Congress. In the presidential campaign, the term universal is being applied to a linked series of substantive rights—housing, health care, education—to incorporate those populations toward whom we have seen such indifference. To see what these politics bring, we need to move beyond the twin moralities of hazard and panic—unearned reward and undeserved punishment—and embrace a more speculative stance toward our lives together where mutual indebtedness heightens a sense of interdependence. The speculative claim is that great wealth can be

amassed in our midst out of what we have to hand and invested anywhere for any purpose. Perhaps it is time to demand that speculators get their just rewards, but also to redefine who gets to participate and what gets to be defined as the benefits.

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