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Mediating Private Capital with Public Values:
The Everyday Politics of Mortgage Bond Systems in Denmark and the U.S.

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ABSTRACT

Quasi-public institutions are significant but unsung players in the contemporary international financial order. What can be understood as quasi-public institutions (QPIs) have been created by states or private associations to provide a means of mediating private capital with public value, typically attracting domestic and international investment in order to foster and further a domestic agenda that has strong support from the broader population. As such they fit awkwardly with common perceptions of the international political economy as dominated institutions that reflect either state or market interests. QPIs do both and have emerged as institutional responses to domestic crises that then go on to have a role in shaping the world economy. QPIs that issue collaterized securities from mortgage credit, be they public or private in origin, reflect this institutional form given that their purpose is to bring together private capital and public value. This purpose also makes QPIs sensitive to everyday politics, given that they were created to reflect a broad social purpose rather than only elite interests. This article discusses the development of QPIs for mortgage bonds in a liberal market economy, the U.S., and a coordinated market economy, Denmark. I suggest that QPIs' values have been challenged by de-regulatory and re-regulatory trends in recent decades. I suggest that QPIs call upon us to question how we identify actors in the international financial order as either public or private, and the importance of everyday politics in fostering institutional innovations that have significant knock-on effects for the world economy.

KEYWORDS

Quasi-public institutions, everyday politics, finance, mortgage bonds, liberal market economy, coordinated market economy.

INTRODUCTION

The popular image of a world awash with private capital, and under the command of 'private authority', underestimates the power of the governments to shape regulatory environments within the contemporary international financial order. While we recognize that governments face serious constraints in how they are assessed by actors in international financial markets, such as sovereign bond rating agencies (Mosley, 2002), and that they have often delegated authority to such organizations (Abdelal, 2007), it is important to recognize institutions created to mediate between private capital and public value. This Special Issue, to which this article seeks to contribute, places the spotlight on a range of issues and actors that are typically ignored, neglected, or misunderstood. Following this ambition, this article places attention on the role of quasi-public institutions (QPIs) that are instrumental in mortgage bond systems in liberal and coordinated market economies, and how their role is evolving in the international financial order. The particular concern of the article is how QPIs are coping as a mediator between the particular interests of private capital and broader societal interests of maintaining public values. I suggest that quasi-public institutions are significant but unsung players in the contemporary international financial order, and that they may be used as a particularly effective barometer for understanding broader changes in regulation and governance in the international political economy. This is particularly the case because unlike more conventional institutions in the international political economy, which can be identified as representing either public authority (be they national or intergovernmental institutions) or private authority (market institutions), QPIs mediate between these two spheres in representing a broad domestic audience but, in doing so, also shape the character of the international financial order. This is particularly important given that QPIs are not typically considered to be a common actor in the international political economy – perhaps because of their non-conformity with public and private distinctions – even though they have gained the attention of comparative political economists concerned with domestic regional systems of governance (Deeg, 1999), business innovation systems (Ibata-Arens, 2003), and pilot agencies for late-development (Yoshimatsu, 2003). This article seeks to demonstrate how QPIs provide a window into seeing the social sources of financial power by linking 'everyday politics' to institutions commonly seen as far removed from the public eye. In short, as institutions that mediate between the specific interests of private capital and broader social interests of public values, QPIs are informed by everyday political, social and economic behaviours rather than conforming solely to the interests of elite coalitions or private financial institutions.

The 'mortgage QPIs' I focus upon have provided the means to coordinate investment for commonly held private goods that provide a social and public function, namely to support the purchase of residential property through the recycling of capital via the issue of collaterised

securities from mortgage credit. In particular, I discuss institutions that issue bonds sourced from pooled mortgages payments via commercial financial institutions, where the key role of the QPI is to source investment to permit the recycling of capital within the domestic political economy, reducing the costs of capital and, therefore, providing a subsidy to potential homeowners. I focus on two cases, the U.S. and Denmark. Immediately, there is a counterintuitive aspect here, an inversion on what we would expect from a 'liberal market economy' (LME) and a 'coordinated market economy' (CME; see Hall and Soskice, 2001). In the former, the U.S, *state-developed* mortgage QPIs such as Fannie Mae and Freddie Mac (and Ginnie Mae in the public market) act as 'instruments of national policy'. These institutions were created directly from the transformation of a civil rights discourse alongside the need to improve liquidity within the domestic financial system. In the latter, Denmark, the transformation of *community-led* mortgage credit institutions (MCIs) from mutual borrowers associations into publicly trade companies permitted the most concentrated mortgage bond market in Europe (IMF, 2007: 14). As these institutions are heavily regulated by the Danish government and evoke public political support, I consider them to be mortgage QPIs. It is particularly noteworthy that these Danish institutions have transformed through harmonization with directives for European financial integration. These two cases are also chosen because they represent mortgage bond securitization systems that have the longest legacies, provide 20- to 30-year fixed-interest mortgage bonds as financial options for investors, and are considered 'best practice' models of QPIs to be exported to transition economies (OECD, 2005).[1]

Importantly, these two cases also demonstrate how mortgage QPIs are created by rights-based discourses that seek to link the private acquisition of wealth and property with collective action for a common public good. Here everyday politics is important in providing impulses for institutional innovation and, importantly, boundaries on what is legitimate policy action for political coalitions and financial elites that, in the study of the international political economy, we would normally consider to be in charge of institutional change. In both cases discussed here mortgage QPIs were built on rights-based discourses, where institutions were created (publicly or privately) to provide not only access to credit but also to compensate those who have been savaged by war or disaster, or those who suffered from discrimination. Under the conditions provided by the post-World War II welfare state, mortgage QPIs were able to extend their role and became associated with a need to support minority and low-income groups in liberal or residual welfare systems (the U.S.) or the provision of welfare for the middle-classes in universal systems (in Denmark, see Esping-Andersen, 1990). However, with the shift to neo-liberal policies in the 1980s these same institutions were deregulated and privatized, often with an explicit aim to integrate them into the international financial order. For Denmark conforming to directives for European financial

integration was important. In both cases the transformation of QPIs calls into question their connection with their capacity to reflect the impulses everyday politics they were intended to represent, or whether ideas and practices concerning how the economy should work have changed among the broader population. As Vivien Schmidt has argued (2003, 2008), institutional change is not made only with reference to economic constraints, fighting among political coalitions, or path dependence, but also discourse. These discourses may be coordinative among elites actors, or also communicative among elites and the public. The point here is that everyday politics in its informal manifestations (discussed below) provides boundaries on what is legitimately possible for institutional change. Obtaining such information is important because it invites us to reflect on the social purpose of institutions that operate in markets typically considered private and normally considered unimportant for change in the world economy. As will be discussed, QPIs have played an increasingly important role in the international political economy in the past quarter-century and, as we know from the sub-prime crisis of 2007-8, investment into residential property markets can have global financial consequences. Understanding how such investments have occurred without tracing the institutional environment that made it possible provides a disjointed, even lopsided, view of how change occurs in the international political economy. Investigating the role of QPIs is therefore important in informing us that change need not come from states' interests in international regimes from two-level games, or the rise of private authority. It may also derive from the state's capacity to institutionally innovate to mediate private capital and public interests in response to everyday politics.

The article proceeds as follows: first I discuss the more general status of QPIs within the international political economy, arguing that they provide a unique way to link comparative studies of institutional variation amidst 'neo-liberal globalization', and invite us to study not only elite consensus but also to consider mass practices and attitudes about the fusion of private capital and public value. Following this section, I discuss the U.S. and Danish cases, discussing three themes in each case: 1) the impulses from everyday politics that led to the establishment of QPIs; 2) how mortgage QPIs transformed over time and what pressures they were particularly exposed to; and 3) contemporary challenges to how QPIs can fulfil their purpose of mediating the interests of private capital with public values. These three themes of *establishment*, *transformation*, and *challenge* are discussed for both cases, with the bulk of attention placed on the last quarter-century. In the second section I discuss the U.S. case and highlight how mortgage QPIs were transformed in the 1980s and 1990s, and then compromised by George W. Bush's administration. In the third section I discuss the Danish case, where I highlight how their mortgage QPIs were effectively privatized in the late-1980s from a need to conform with European financial integration,

a process that has altered how they relate to the Danish market for residential property. Finally, I suggest that examining the role of quasi-publics in the international political economy provides a sensitive understanding of how the mediating forces between the international and the national, the public and the private, are changing.

QUASI-PUBLIC INSTITUTIONS AND EVERYDAY POLITICS

What should be considered public and what should be considered private in the international political economy? Political economy has traditionally maintained a distinction between what is public and private, typically separating actors within public organizations as acting within states or bureaucracies who seek order and power, while actors within private organizations are profit-seeking and market control. Detailed analyses of coalitional battles tend to follow these understandings. Similarly, discussions of global governance tend to assume a separation between public and private that obscure the introduction of new practices that readily blur the two. Recent work on 'private authority' has made strides in identifying how private actors have gained greater prominence in governing the international political economy (Cutler et al., 1999; Hall and Bierstecker, 2002), while recently Rawi Abdelal (2007) has demonstrated how much of this authority is not the replacement of public authority but delegation by government in a period of more internationalized private capital. What is public and what is private is blurred as regulatory stringencies, exemptions, and recognition of special status empower certain institutions over others (for example, consider bond rating agencies, see Sinclair, 2005).

I suggest that QPIs provide a halfway house between what would normally be considered private capital and public value, as well as increasingly a mediating institution international and domestic capital needs. For example, the mortgage QPIs discussed here must confront their private shareholders while also dealing with the public responsibility that their particular regulatory status demands. In the U.S. case the government created mortgage QPIs for the community, while in Denmark they were created by community associations and then placed under tight regulatory control by government. Both cases provide examples of hybrid institutional forms that remind us that, even in a more globalised world economy, there is a great deal more institutional diversity than a simple war between efficiency-maximizing market-supporting institutions and presumably decaying welfare state-type pro-community institutions (Crouch, 2007). Rather, there is, at the same time, a reinforcement of distinct welfare-state regimes while also increasing convergence on reform trajectories for the regulation and governance of the international financial order (Hay,

2006). As QPIs are enabled by governments, they must situate themselves both within the domestic political economy and, more recently, also conform to requirements from the international political economy.

Investigating QPIs affirms the importance of understanding institutional diversity in the international financial order, not least because they also point to the capacity for non-elite actors to have voice within their domestic systems, by calling upon governments to insist that QPIs behave according to their mandate to support not only private capital but public values. I suggest that QPIs, such as those discussed here, invite us to look not only at coalitional politics behind the creation of institutional forms, but also at everyday politics in how the broader population engage with property and finance in everyday life (Seabrooke, 2007; Langley, 2008).

The work on 'everyday politics' (Hobson and Seabrooke, 2007) and 'everyday life' (Davies, 2006) has already been strongly linked with changes within the international financial order (Aitken, 2005; Seabrooke, 2006; Watson, 2007; Langley 2008). Such work, including that on the 'financialisation' of everyday activities (Froud, et al. 2007), typically seeks to understand how new financial practices are created through government regulation and the role of private institutions, and particularly to understand how they alter everyday routines, risk behaviours, and intersubjective understandings among the broader population. Such a conception of society separate from the normal institutions studied by political economists is certainly welcome and critical for the development of understanding how authority, legitimacy, and identity is not derived from institutions, or commanded or proclaimed by those who control them (Seabrooke, 2006: ch. 2). Rather, it also suggests that society at large has at least the potential to provide impulses for institutional change. As such, a conception of everyday politics is important for understanding how institutions change not only during a period of crisis through material and ideational battles among elites (Blyth, 2007), but also during periods of seeming 'normality' (Seabrooke, 2007).

It is important to note that the literature on everyday politics from political sociology and political anthropology stresses how acts do not need to be 'political' in order to be important. For example, Benedict J. Tria Kerkvliet's (2005) work on why national collectivized agriculture failed in Vietnam points to how everyday politics came through expressive practices as seemingly minor as cheating on rice stocks or cheating stories and rituals to mock those in power (Kerkvliet, 2005; Scott, 1985). So while actors may chose to collectively act (such as within the U.S. fair housing movement discussed below), broader changes in how actors behave can provide impulses for institutional change. Intersubjective understandings among a broader population on how the economy should

work do not simply provide a 'cultural toolkit' to operationalise when movement entrepreneurs seek to engage in 'politics' (McAdam, Tarrow, and Tilly, 2001), but shape the boundaries of the everyday 'thinkability' and 'logicability' for those governing as well as those being governed (Hopf, 2002: 13-15). As such, through 'voting with their feet' in taking-up new practices or rejecting them for the maintenance of the status quo, non-elite actors provide impulses to elites for institutional change (Seabrooke, 2007). This more fluid conception of politics is also more fitting for societies in which there is a weak connection to notions of class solidarity, or where there are 'everyday makers' who do not require an ideological position on a traditional political axis in order to promote their own conception of how the economy should work (Bang, 2005). In such cases, as with those discussed below, consensus among elites that is insufficiently communicated to the public can raise dissent and a change in everyday financial practices, both for and against the greater good for the society as a whole (Schmidt, 2003; Schmidt, 2007).

MORTGAGE QPIs IN THE UNITED STATES

Establishment

A potted history of mortgage QPIs in the U.S. shows that they emerged from crisis and complaint. The U.S. has a long history of attempts at mortgage securitization, including a failed try in the nineteenth century that burnt English investors, as well a 1920s collapse of real estate bond market schemes in New York (Snowden, 1995). But the institutional innovations themselves are difficult to understand without understanding the deep and broad social need for them. Indeed, the origins of U.S. mortgage QPIs can be found in attempts to alleviate economic instability within the private market through the suggestion of a government guarantee. In 1932, the establishment of the Federal Loan Bank system and then, in 1933, the Homeowners' Loan Corporation (HOLC), permitted homeowners to borrow up to 80 percent of house price. By 1936 the institution had *one in ten* residences encumbered to it but was required to engage in massive foreclosures. Following this crisis experience, in 1938 the National Mortgage Association of Washington was created and soon renamed Federal National Mortgage Association (and known as Fannie Mae).

The experience of institutional building during the Great Depression, akin to the creation of other national projects during this period of 'embeddedness' (Blyth, 2002), married public purpose with private capital. The institutional innovation of Fannie Mae had broad popular support. The increasing stress within this system was to expand access to owner-occupier residential properties, while continued reforms within the domestic financial system sought to foster credit access for the

middle classes. J. K. Galbraith, for example, commented in 1958 that the 'process of persuading people to incur debt, and the arrangements for them to do so, are as much a part of the modern production as the making of goods and the nurturing of wants' (Galbraith, 1962: 167). In 1963 the Community Investment Plan sought to extend such access and during the same period the introduction of credit cards (like VISA) ushered in the consumer credit era (Seabrooke, 2001: 60-1; Montgomerie, 2003). Everyday practices and changing attitudes concerning were important in affirming the presence of institutions that could safely support the extension of credit.

Of course, the 1960s' civil rights movement raised numerous concerns about who exactly had access to credit, particularly given the experience of 'redlining' communities, where some banks would literally draw lines around neighbourhoods they were willing to accept deposits from but not lend money to. Under the auspices of the Civil Rights Act of 1968 (Title VIII), the Fair Housing Act Ginnie Mae was created from Fannie Mae to cater particularly for low-income borrowers. Essentially, Ginnie Mae became the public arm of this system while Fannie Mae was transformed into a government sponsored private corporation with private shareholders. This institutional innovation followed calls for representation despite organised resistance from coalitions who sought to repeal or prevent fair housing legislation at the local and state levels (Gamble, 1997: 255-6). Building on the federal government's perception of the need for greater rights for lower-income and minority groups, the Community Reinvestment Act (CRA) of 1977 explicitly sought to tackle redlining and empower low-income and minority borrowers, in part through bolstering the capacity of groups, such as the National Community Reinvestment Coalition (NCRC), to provide a watchdog function.

In addition to the above reforms, in 1970 the U.S. government charted Freddie Mac from Savings and Loans associations, with the task of providing (like Fannie Mae) a secondary market for mortgages, and specifically to permit the capital from mortgages to form a 'pool' that was then sold to investors (Seabrooke, 2006: 125, 130). Following the Emergency Home Finance Act of 1970, which permitted the siblings to securitize mortgages, Fannie Mae and Freddie Mac were therefore, in theory, endorsed as government sponsored enterprises to compete in the private market (with Ginnie Mae dealing with the 'pure' public market). The U.S. government's 'conjectural guarantee' to support Fannie Mae and Freddie Mac built a strong perception that there is a line of credit from the Treasury should the QPIs have any problems fulfilling financial obligations to their investors (Schmid, 2003). As such, this 'conjectural guarantee' permits the QPIs to behave in non-market ways and effective subsidize mortgages through a large wholesale market that lowers the costs of capital (Schmid, 2003; Roll, 2003: 31). This guarantee also permitted investors to enter this market

with a great deal of confidence, leading to the transformation of these mortgage QPIs.

Transformation

During the 1980s the U.S. sought to further enhance the role of the QPI siblings within the domestic and international financial systems through the 1984 Secondary Mortgage Market Enhancement Act that brought in a more active secondary market for mortgage-backed securities. These changes were justified by the notion that by more efficiently recycling capital through the domestic system, mortgage QPIs could boost homeownership not only for the middle-classes but also for lower-income groups. Indeed, during the 1980s the presence of community groups and watchdogs, such as the Association of Community Organizations for Reform Now (ACORN, see Borgos, 1986; Sidney, 2003), was important for progressive legislation in the late-1980s and early-1990s that affirmed the need for Fannie Mae and Freddie Mac to cater to low-income and minority groups as well as the middle classes. For example, in 1989 changes to the Home Mortgage Disclosure Act (HMDA) of 1975, which required mortgage lenders to collect information on borrowers, was expanded to data about who was denied loans, including information on income, gender, race, and location. (At the same time Freddie Mac was permitted to offer shares to the public rather only approved financial institutions). And in 1992 the Federal Housing Enterprises Financial Safety and Soundness Act required Fannie Mae and Freddie Mac to concentrate more on the lower-middle classes and minority groups, while the mortgage QPIs also standardized their credit assessment procedures that arguably diminished their capacity to do so (Stuart, 2003: 110). Also, community groups have successfully campaigned against mortgage QPIs, especially through public shaming, to encourage them to support sustainable communities and owner-occupation instead of 'infamous slumlords (see, for example, Groarke, 2004). In general the system here was that mortgage QPIs could issue mortgage-backed securities from pools of capital derived from financial institutions that could specify that they had met the financial and social criteria required for business with Fannie, Freddie, and Ginnie. Fannie and Freddie boomed throughout the 1980s and 1990s (Stuart, 2003). In the same year the value of outstanding mortgage-backed securities was $1 trillion, with Ginnie Mae, Fannie Mae, and Freddie Mac issuing 90 percent of all new mortgage-backed securities (Seabrooke, 2006: 126-7). By 2005 the market for outstanding mortgage-backed securities from these QPIs was approximately $3.8 trillion.

An important element of this story is the extent to which financial de-regulation and re-regulation, as well as the role of foreign investors, altered the environment for QPIs in the 1990s. U.S. regulators' especially permissive non-oversight in the 1990s allowed commercial banks to dabble in areas of finance where non-bank financial intermediaries (NBFIs) were becoming especially

competitive (with the Financial Services Modernization Act of 1999 eventually formally reforming the Glass-Steagall Act of 1933 that had separated investment and commercial banking to permit 'financial supermarkets'). Around the same time the Securities and Exchange Commission's (SEC) 1992 introduction of Rule 3a-7 required all asset-backed securities to have a credit rating from at least one nationally recognized statistical rating organization (NRSRO), providing a boost to bond rating agencies such as Moody's and Standard and Poor's as quasi-regulators (on NRSROs see Abdelal, 2007: 173). Implementation of the Basel Capital Accord of 1988 by 1992 also meant that the type of securities banks were holding was under more scrutiny. Within this environment the risk weighting for mortgage-related securities from QPIs was 20 percent while risk weighting for those from private market was 50 percent (until reforms in 2002). Understandably, the mortgage QPIs attracted significant foreign investment. By the late-1990s one-third of Freddie Mac and Fannie Mae outstanding debt issues were owned by foreigners, compared to around 13 percent for the U.S. mortgage-backed securities market in general (Roll, 2003: 36). As such, mortgage QPIs effectively became 'the hinge connecting international credit markets to the domestic U.S. housing market', making up a third of U.S. debt securities in the public and private market (Schwartz, 2007) and the siblings the largest issuer of debt in the U.S. after the Treasury. Their capacity to attract significant foreign investment (such as from the Chinese government) to subsidize the costs of capital to increase home ownership among the American middle and lower-middle classes demonstrated the power of QPIs within the international financial order, and the ongoing role of government in supporting U.S. international financial capacity.

Challenge

The creation of such financial capacity relied on the U.S. mortgage QPI's mandate of fusing private capital with public value. Fannie Mae and Freddie Mac (2005) both explicitly state that their missions are to expand home ownership within the U.S., and especially among lower-income and minority groups. For example, Fannie Mae, in outlining its role in increasing minority homeownership states, that it is first and foremost an 'instrument of the national policy that promotes homeownership because it is good for families, communities, and the nation' (2003: 13). They have, however, also come under heavy fire from critics who accuse the QPIs of abandoning their support of public value for, instead, greater integration within the private market. For those on the right, then, the QPIs should be abolished as a quasi-socialist overhang from an outdated era, while for those on the left the QPIs have demonstrated 'corporate wrongdoing' through accounting scandals while not sufficiently provide for low-income and minority borrowers to justify their unique status.[2]

The capacity of QPIs to fuse private capital and public value depends on how they are regulated and the extent of community support for them (expressed through protest or otherwise). In particular, within the U.S. context the regulatory enforcement in a period of delegated authority relies heavily on the appointment of top administrators for the QPIs, as well as for oversight for the CRA and other civil rights and fair housing legislation (Stuart, 2003: 196). For example, Fannie Mae and Freddie Mac are only permitted to securitize or purchase mortgages that are 'conforming' with their charter. During the 1990s the mortgage QPIs relaxed their standards in order to provide greater access to mortgage credit for lower-income and minority groups (Stuart, 2003), including the purchase of sub-prime mortgage-backed securities. However, from 2001 onwards the stress was away from fulfilling this public value mandate (especially for first-time homeowners) and more on refinancing mortgages. For Freddie Mac between 2001 and 2003 there was a more than $300 billion 'extraction of home equity' into the domestic economic that was largely spent on home improvements (Nothaft, 2004: 27). At the same time, growth in the private mortgage-backed securities markets boomed, with the mortgage QPIs share of securitized mortgages dropping from 90 percent to 73 percent (CGFS, 2006: 14), creating nearly $2 trillion in debt that did not go through the siblings. And on top of this change, the mortgage QPIs were also used to soak-up sub-prime problems prior to the 2007 crisis. While the mortgage QPIs held 11 percent of mortgage-backed securities supported by sub-prime loans in 2001, in 2004 this figure had increased to 44 percent ($176 billion), before decreasing to 35 percent in 2005 and 25 percent in 2006 (CGFS, 2006: 17).[3] The problem here was not so much the fact that the QPIs were permitted take-on such loans, but that they were not able to prevent the expansion of the market by insisting on its founding public values that reject discriminatory and predatory lending. The key culprit in generating the sub-prime crisis of 2007-8 was a failure in government regulation, including its lack of support for community oversight.

These functions were impeded not only by Fannie Mae and Freddie Mac's leadership (including Fannie Mae's hiding of $9 billion in earnings in 2004!), but also by a changing regulatory environment engendered by the Bush administration. The first step here was to impede the watchdog function of community-based groups, such as the NCRC, by reclassifying what is considered to be a small bank and, therefore, the extent of oversight for the CRA (which itself provides an effective subsidy on mortgages for low-income earners, see Canner, et al. 2002).[4] For example, at the same time as the refinancing boom, 2001-3, there was a 54 percent increased in rejections of loan applications from African Americans to private financial institutions, while also growth of 40 percent of non-owner occupier mortgage for people on more than 120 percent of median income.[5] The increasing prominence of non-bank financial intermediaries (such as

financial and insurance companies) within the primary mortgage market, exempt from CRA oversight, as well as smaller competitive banks who were under weaker oversight from community watchdogs, also further opened-up the private and predatory sub-prime market. Such regressive changes led the Department of Housing and Urban Development to complain in 2004 that the mortgage QPIs should 'do what is expected of them—helping low- and moderate income families at least at the same percentage levels as primary market lenders' (Seabrooke, 2006: 209). During the same period the administration argued that Fannie Mae and Freddie Mac should be completely privatized as only a 'pass through' service (as in, not permitting them to buy pools of mortgages from financial institutions), with the implicit guarantee of a line of capital from Treasury stripped from them.

International organizations, such as the Bank for International Settlements, weighed in here as well, suggesting that the mortgage QPIs should 'adhere more closely to their statutory role in providing liquidity to the market for securitized mortgages and avoid creating distortions in the primary mortgage market through their activities' (BIS, 2005: 215). U.S. regulatory agencies had already taken on-board international standardization through reforms in 2002 effectively placed mortgage-backed securities from QPIs on a more equal footing with the private market and more reliant on risk assessments from bond rating agencies and financial institutions themselves.[6]

U.S. mortgage QPIs' challenge of maintaining a happy marriage between private capital and public value was therefore increasingly complicated by the rise of regressive U.S. domestic politics and the demands of international standardization that prized the technical evaluation of risks associated with private capital that was at some remove from social purpose. The delegation of authority to private actors that have little public accountability, like bond rating agencies, reinforces this disempowerment (Abdelal, 2007: 165). This has led community advocates in the U.S. to suggest that for mortgage QPIs to fulfil their mandate of mediating private capital and public value more stress must be placed on creating 'laboratories of democracy' at the state level, including more localized oversight on who private financial institutions lend to. At a more diffuse level of everyday politics, the widespread acceptance of mortgage securitization and stress on homeownership as a means of storing wealth may reinforce the notion that 'sweat equity', such as profits derived from investments in housing, is preferred to redistributive policies that improve the lot of low-income and minority groups (Prasad, 2006).

The changes outlined above are significant for everyday politics in the U.S. precisely because U.S. mortgage QPIs have been founded on rights discourses from the Great Depression, and then civil

rights and ‘fair housing’ movements. The fact that U.S. mortgage QPIs provides information to the public on loans that it buys or securitizes provides ammunition to community watchdogs and ideally provides a source of democratic accountability (Stuart, 2003: 196). However, the power of community groups to have voice is in part dependent on political changes at the top of the administrative chain at the national level and changes during the Bush administration have actively disempowered community groups. In doing so, worsened conditions for low-income and minority borrowers fuelled a predatory sub-prime market that has led to a global credit crunch.

MORTGAGE QPIs IN DENMARK

Establishment

Denmark has a longer history of a sophisticated mortgage bond system than the U.S., and its development reflects community-led developments to fuse private capital and public value. The origins of the Danish mortgage-backed securities system can be found in the late 18th century, when a mortgage bank was formed in response to a 1795 fire in which 941 houses were burnt to the ground. The community response was to form a cooperative for the reconstruction of houses and extension of mortgage credit. Following the Danish government’s 1848 creation of a national constitutional assembly (ending the absolutist period and entering constitutional monarchy), the recognition of the right to freedom of association led to calls for the recognition of cooperative associations. Accordingly, in 1850 the first Danish Mortgage Act recognized mortgage credit associations, particularly given the spread of land ownership among farmers from the aristocracy and political desire to provide mortgages to those considered near-creditworthy. Such recognition reflected community-led rather than state-led building of capacities (cf. Bogason, 1992), although the Danish state took an active part in the regulation of mortgage credit institutions after 1880. Innovations in the 1920s sought to extend Danes’ access to small landholdings (including loans of 90 percent of the value from the government), but with no great stress placed on private residential housing. These markets were further developed after the 1930s, along with other social reform legislation in response to the Great Depression. An important aspect here is that the institutional innovation was, as with the case above, in recognition of a broader public value that extended beyond the interests of political and economic elites, accompanied by a view that change according to collective principles would be made ‘gradually, on an eclectic basis’ (Bernhard, 1951: 644).

Importantly, the state came to regulate what was a community-driven activity that followed a rights discourse on the capacity to access a dwelling (not necessarily own it freehold) through mutual associations. Within this context what are referred to as mortgage credit institutions (MCIs) in Denmark have come under heavy statutory conditions, effectively making them marry private capital and public value. For example, Danish MCIs are prevented by law from directly entering into other areas of financial services, other than through subsidiaries, and are not permitted to provide guarantees. They must also maintain a 'balance principle' established in the mid-nineteenth century, where only mortgage bonds are permitted as a source of financing for their activities (IMF, 2007: 6). In other words, all residential property loans handled by private financial institutions must be supported by mortgage bonds, and these bonds must be, in turn, backed by already existing mortgages. In this sequence, investors provide capital to the bond market, which then provides capital to the MCI, which then provides capital to the homeowner in the form of a bond, which is then held by the MCI and sold to investors through the bond market. Within the Danish system mortgage banks legally have a senior claim to proceeds from properties sales following a default, and due to regulations on loan-to-value ratios it is highly uniform (unlike the U.S.). Prior to reforms in the 1990s, borrowers were jointly responsible for payments within a pool of mortgages, up to the limit of the value of the bond. As such, Danish MCIs provide a 'pass through' service and cannot purchase pools of mortgages like their U.S. counterparts. Within Denmark investors are not liable for capital gains tax on mortgage bonds, providing them will added value. Also, in further support of their status as a QPI, Danish MCIs are considered by the key regulator, the Danish Financial Supervisory Authority (DFSA, *Finanstilsynet*), to be 'average general risk' rather than 'high general risk' (like commercial banks) (IMF, 2007: 8). Also, Danish MCIs also share information on their dealings with primary and secondary mortgage markets to ensure coordination. Given this system for stability, Danish MCIs boast that no bondholder has lost money in the history of the system, including through wars and depressions.[7]

Importantly, akin to the widespread perception that the U.S. government would bail out mortgage QPIs, should they experience financial problems, investors' perception of the Danish system is that it benefits from a 'broad political commitment to its integrity' (Frankel, et al. 2004: 98). As such, they may be considered mortgage QPIs with private rather than public origins. This is in large part due to small number of players within the system (Denmark has Europe's most concentrated mortgage market, with the top five lenders holding 95 percent of the market, see IMF, 2007: 4), and the size of the mortgage debt within the economy. The ratio of mortgage loans to GDP was 100 percent in Denmark in 2003, compared to 81 percent in the U.S. (Frankel, et al., 2004: 97).

Transformation

Like their U.S. counterparts, the Danish mortgage QPIs underwent reform in the 1970s, primarily with further standardization of mortgage financing. However, the biggest reforms occurred in the 1980s and 1990s, primarily through involvement with the European Union (EU). During the 1980s mortgage contracts were liberalized in 1982 to permit more competition (and alongside interest rate deregulation, see Broome and Seabrooke, 2007). More significant, however, were reforms in the late-1980s that transformed the status of Danish mortgage QPIs to comply with a more uniform standard across European markets. Previously mortgage QPIs were, as suggested above, community-driven mutual associations under government regulation, with Danish individuals and families dealing with cooperative associations in order to acquire freehold and leasehold residential properties. A government-induced housing crisis in Denmark in 1987, through changes to tax code (Mortensen and Seabrooke, 2007), produced a domestic environment for institutional change that coincided with, and more importantly, the need to harmonize with European financial directives, In 1989, just after Denmark had removed capital controls (Abdelal, 2007: 72), conforming with the EU's Second Banking Directive required legal changes to the status of Danish mortgage QPIs.[8]

The key change here was the transformation of mortgage companies from mutual borrowers' associations into publicly traded companies. The regulatory changes also permitted banks to acquire mortgage companies, presenting a clear case of Europeanization introducing financial liberalization and internationalization (Abdelal, 2007). As a consequence, Danish mortgage QPIs that were originally established as mutual associations and foundations (such as BRF Kredit, Nykredit, and Realkredit, some of whom date back to the nineteenth century), were joined by companies owned by commercial banks. The 1989 changes altered the environment not only for those obtaining mortgages within Denmark (explained below), but also provided more interest in the market from foreign investors. As such, the share of foreign investors holding Danish mortgage bonds increased significantly since the 1990s, from around 5 percent to around 15 percent of total investments being held by foreigners and 22 percent of Euro-denominated short-term callable bullet mortgage bonds (IMF, 2007: 14).[9] As such, the Danish mortgage bond market became the second largest in Europe behind Germany.[10] While much smaller than their American counterparts, the Danish QPIs are important players within European markets and critical for the financial health of the Danish economy.

The domestic changes from financial re-regulation and deregulation from Europeanization are politically and socially significant given the extent of mortgage debt held and access to mortgages. Prior to 1989 Danish mortgage QPIs relied on customers going through commercial banks and

estate agents and with the introduction of the Second Banking Directive they bought up estate agents in order to change their operations from a wholesale to a retail basis. As such, and in contrast to the U.S. QPIs, who do not deal with individual customers but financial institutions, the Danish mortgage QPIs have directly engaged the public in competition with other financial institutions, with the bigger foundational institutions increasing the origination of loans (and therefore bonds) by some 38 percent in the early-1990s.[11] At the same time integration with EU Capital Adequacy directives required the removal of collective responsibility for mortgage pools and increased stressed on individual ownership and responsibilities (OECD, 1995). Within the system, borrowers obtain a mortgage from the Danish QPIs that covers 80 percent of the value of the property, with the remainder commonly funded through commercial banks through a 'top loan'. A key change here is the individualization of how residential property markets are treated within Denmark. As stated above, the origins of the Danish mortgage bond system come from a crisis response concerning collective access to mortgage credit, and change to the system was gradual. The past decade has provided a sharp contrast in changes in how ordinary Danes treat residential property markets.

Challenge

Compared to their European counterparts, the Danish mortgage QPIs provide extraordinary levels of access to credit for residential property and may be challenged by European harmonization. For example, the institutional arrangements in Denmark permit a 5 percent down payment for a mortgage for freehold property, compared to 20-30 percent in Germany (Whitehead, 1998: 23). In this sense it does more to absorb 'nonconforming' borrowers than many others European states, despite the absence of a subprime market (IMF, 2007: 14). Here Denmark differs strongly from the U.S. In the U.S. Fannie Mae and Freddie Mac initially took on subprime loans to extend access to mortgage credit for low-income and minority groups, as well as complied with CRA regulations, in order to provide a form of welfare. Such compensation is based on the inadequacy of the conventional welfare system (Howard, 2006). Denmark, on the other hand, has a vigorous welfare state, often considered the most generous (Hay, 2006) and among the most 'decommodified', where 'a service is rendered as a matter of right, and when a person can maintain a livelihood without dependence on the market' (Esping-Andersen, 1990: 21-22). Denmark's extremely high taxation regime (a top marginal rate of 63 percent and average overall marginal rate of 44.5 percent in 2006),[12] and the development of mutual associations (such as those for mortgage credit prior to the EU-induced reforms) that work closely with government are important aspects of the welfare state. As such, Denmark reflects a classic 'welfare trade-off' where, despite significant, and

equally spread wealth, only half of the population own their properties in 2002 compared to 68 percent in the U.S. (OECD, 2004: 135; on the welfare trade-off, see Kemeny, 1980; cf. Castles, 1998).

A key change from financial re-regulation in the 1990s has been the introduction of a more competitive and individualized residential property market where attitudes towards housing as a social right are gradually transforming towards a more Anglophone conception of housing as a means to wealth (Mortensen and Seabrooke, 2007). The status of Danish mortgage QPIs within this context is important given their change from community-based mutual borrowing associations into publicly traded companies that have effectively become holding companies competing for market share and product innovation. Within this context the reintroduction of adjustable interest rate loans in 1996, as well as the introduction of interest-only loans (for 10 years) in 2003 and capped-rate floating loans in 2004 (IMF, 2006: 41-2) represent not only new incentives for changes in market behaviour in Denmark, but new conventions about how the economy should work, and for whom.

Change within the Danish system has not been predominantly domestic like the U.S. Rather, the driving force has been Europeanization, where policy change has been concentrated among political and financial elites and at some remove from the 'ordinary' population (Bieling, 2006; Schmidt, 2007). While convergence within the European mortgage bond system has been far from complete due to persistent national legal frameworks (Stephens, 2000), it is significant that the Danish government voluntarily opted to extend draft EU legislation to its mortgage market. For example, draft consumer credit legislation from 2002, which sought to update an ineffective attempt from the mid-1980s, was voluntarily applied to mortgage markets by the Danish government. Also, in anticipation of the European Capital Requirement Directives, which also brings in Basel II compliance, set for 2008, the Danish mortgage bond system was altered. Typical mortgage bonds were replaced with covered mortgage bonds (*særligt dækkede realkreditobligationer*) that permit delayed amortization beyond ten years is the value of the loan is less than 70 percent of the value of the property (Danmarks Nationalbank, 2007: 15). At the same time, lobby groups, such as the European Mortgage Federation, have continue to apply pressure for the removal of government regulations that prevent a totally flexible market, such as legally enforceable interest rate caps.[13] Such pressure has led to discontent among some financial institutions within Denmark, who have otherwise maintained a long-standing corporatist tradition.[14] In general, the trend of reforms to Danish mortgage QPIs provides another case of policy coordination among transgovernmental policy elites and the financial community that is largely

isolated from the concerns of social movements, trade unions, and even political parties (Bieling, 2006: 429; cf. Warner, 2007).

Changes associated with a combination of re-regulation to accommodate European harmonization and changing behaviour among ordinary Danes in residential property markets has led to a new politics within Denmark, along with the acceptance of new financial practices. For example, in 2002 the Danish government froze taxable property values to gain widespread public support (IMF, 2006: 45), especially the notion that tax burdens associated with property were too high. There have also been concerns about access to mortgage credit within the new financial environment. Mutual owner-occupiers' associations, for example, have expressed concern over how changes within the housing finance environment are making it more difficult for ordinary Danes to acquire property. In particular, reform of the cooperative ownership housing system (*andelsbolig*), through a combination of government evaluations and *andelsbolig* association board meeting approvals (formed by residents who live, typically, within the apartment complex), has commonly led to three and four-fold increases in apartment prices and, in some areas of Copenhagen, twelve fold increases. The notion of housing as a social collective enterprise and especially as a social right is seriously in question and as of early 2008 there was an active political debate on the complete privatization of the once cooperative market for affordable housing.[15]

The implication here is simple: the conventional Danish welfare trade-off permitted the population to place less stress on owner-occupation and more stress on paying high-taxes for welfare. Changing behaviour in relation to housing finance, especially the rapid uptake of new housing finance instruments that introduce greater risk to what has traditionally been a risk averse population (Mortensen and Seabrooke, 2007), suggests a sea change has occurred that will ultimately have an impact on the Danish welfare trade-off. As such, the capacity of Danish mortgage QPIs to fulfil their original purpose of mediating private capital and public value is altered as the residential property market is liberalised and, perhaps more importantly, individualised. Finally, there has also been an increased perception that mortgage QPIs are threatened by Europeanization. The publication of a white paper for the harmonization of housing finance markets in Europe in December 2007 led to immediate calls from the Danish Housing Finance Council for the protection of the unique status of Danish mortgages QPIs, in accordance with the will of Danish consumers.[16] The trouble here is that the European process of financial integration, including mortgage bond markets, appears to be increasingly elevated above the level of domestic politics, never mind everyday politics. As with other aspects of European integration, this raises serious questions about a conflict between the notion of a European social model and the

implementation of directives for financial integration that are insensitive to local public values (Cafruny and Ryner, 2003).

CONCLUSIONS: EVERYDAY POLITICS AND MORTGAGE QPIs

This article has sought to place a spotlight on the role of quasi-public institutions as important actors in the international political economy that act as filters between domestic and international economies, and which were ideally created to mediate between the interests of private capital and public value. I have suggested that in the U.S. and Danish cases mortgage QPIs have traditionally provided this function. Both sets of mortgage QPIs were established by a collective rights discourse that required the state (in the U.S. case) or the community (initially in the Danish case) to respond to a widespread crisis. In the twentieth century both sets of QPIs were strengthened by a notion of collective rights to access credit for residential property ownership in a manner that used implicit government guarantees to attract domestic and, increasing, international investment. In the U.S. case, in particular, mortgage QPIs continue to be charged with the mission of not only providing capital recycling for the American middle-classes but also, ideally, providing more credit opportunities for mortgage credit for lower-income and minority groups. In the Danish case external pressures from European harmonization has transformed the broader public role of mortgage QPIs, and also encouraged a more individualised and liberalised market for residential property.

I hope to have demonstrated that mortgage QPIs are significant players in the international financial order. Within the U.S. the mortgage QPIs are only second in issuing debt within the U.S. system to the Treasury. Within Denmark the mortgage QPIs provide the most concentrated market within Europe and, for ‘pure’ housing finance, box well above their weight within the common market. Both U.S. and Danish mortgage QPIs internationalized to a large extent due to reforms during the 1980s. With a third foreign ownership of mortgage-backed securities from U.S. mortgage QPIs and 15 percent of mortgage-backed securities of Danish mortgage QPIs, housing finance within these societies has significant foreign support. This support is primarily based on the regulatory status of the institutions as QPIs, the notion that in the U.S. case investors minds should be at ease because there is a line of credit from the Treasury should problems eventuate. Similarly, in the Danish case there is a strong perception that there is a broad political commitment to the mortgage QPIs and, especially given their market concentration, ‘too big to fail’. In both cases the unique status of these institutions has provided an effective subsidy on the costs of

capital for ordinary, everyday, homeowners. As such, the U.S. and Danish mortgage QPIs have been able to mediate between private capital and public value.

I have, however, suggested that this capacity to mediate between private capital and public value has been impaired by recent changes and I conclude by discussing how the changes described above link to everyday politics. There is no particular 'king hit' explanation here in terms of what matters more for causal explanation, be it economic constraints or domestic political coalitions, etc. In order to learn from each other within political economy, we can understand how, for example, a domestic political coalitions argument can complement rather than compete with an argument suggesting that political coalitions and elites (including ideational entrepreneurs) must derive their powers of persuasion from identifying the boundaries of what is possible within a society (Blyth, 2007). The point of attempting to understand everyday politics as impulses that emerge from the broader population to those who govern is to attempt understand the social sources of institutional innovation. Without attempting to find such information we may find it more difficult to establish counterintuitive trends within the international political economy, just as we may ignore institutions such as QPIs who do not readily conform to notions of state or market, public or private, or what is a liberal market economy as opposed to a coordinate market economy (Hall and Soskice, 2001; cf. Campbell and Pedersen, 2007). Indeed, without understanding the progressive role of U.S. mortgage QPIs in providing the institutional environment for foreign investment into bonds supported by residential home loans, it is difficult to understand what gave foreign investors confidence in a highly regressive and predatory market targeted at lower-income and minority Americans with poor credit histories. In short, the 2007-8 subprime crisis is difficult to fully comprehend without examining mortgage QPIs that emerged as innovations in response to everyday politics.

In conclusion, QPIs are interesting for studies of the international political economy precisely because of their mission to mediate between private capital and public value. QPIs provide a means to reflect upon the institutional specificities of how states built international financial capacity based on compromises and arrangements between government, financial communities and the 'ordinary' population (cf. Konings, 2008). As mortgage QPIs were built upon created by rights discourses from the broader population, changes to how they behave in their domestic political economies and the international financial order calls us to question how those discourses are evolving. In doing so, it reminds us of the connection between everyday life and the international financial order, as well as the need for everyday politics to transform into political

voice to maintain widely held public values in a period where private capital is being given more authority by governments.

NOTES

[1] The U.S. and Danish systems are unique in permitting long-term, 30 year, mortgages with no penalties for early payment, see Frankel, et al. 2004.

[2] For example, on the right, S. Moore (2004) 'Who Needs the NYSE?', available at: http://www.cato.org/pub_display.php?pub_id=2658. And, on the left, R. Nader (2006), 'Letter to SEC Chairman Cox Regarding Fannie Mae', available at: http://www.nader.org/index.php?/archives/669-Letter-to-SEC-Chairman-Cox-Regarding-Fannie-Mae.html

[3] Testimony of J.A. Kennedy, President and CEO of the National Association of Affordable Housing Lenders on 'The Role of the Secondary Market in Subprime Mortgage Lending', Subcommittee on Financial Institutions and Credit House Committee on Financial Services, U.S. House of Representatives, May 8, 2007: 6.

[4] As stated by Sandra Braunstein, Director, Division of Consumer and Community Affairs at the Federal Reserve Board, 'Effective September 1, 2005, new CRA rules helped relieve about 1,800 intermediate small banks with $250 million to $1 billion in assets from previous CRA data collection requirements and from testing of bank investments and service to their respective communities'. As of January 1 2007, a large bank was reclassified as a depository institution with more than $1.033 billion. For the CRA it faces a lending test, an investment test, and a service test. Small and intermediate banks are classified as those with between $258 million and $1.033 billion. They face evaluation on their record of lending to minority and lower-income groups in their assessment area. They are also expected to engage in community development activities. Those with less than $258 million are not expected to develop such activities. See the testimony of Sandra Braunstein, Director, Division of Consumer and Community Affairs, on 'Bank mergers, Community Reinvestment Act enforcement, subprime mortgage lending, and foreclosures', Before the Subcommittee on Domestic Policy, Committee on Oversight and Government Reform, U.S. House of Representatives, at the Carl B. Stokes U.S. Court House, Cleveland, Ohio, May 21, 2007.

[5] Federal Financial Institutions Examination Council, Home Mortgage Disclosure Act Database, National Aggregates, Table 5–2, 2001–03; Table 5–6, 2001–03. Data available at:_www.ffiec.gov/hmda/

[6] The Agencies are: the Office of the Comptroller of the Currency, the Treasury; the Board of Governors of the Federal Reserve System; the Federal Deposit Insurance Corporation; and the Office of Thrift Supervision.

[7] 'Survey of Danish Banking and Finance – Three Biggest Groups Back in the Black', *Financial Times,* 7 April 1994.

[8] The EC drafted a directive on mortgage credit institutions within the European economy in 1984, but no further progress was made until packaged with wider standardization of financial markets.

[9] 'Mortgage Banks: Home Loan Industry may be Reshaped', *Financial Times,* 9 April 1997.

[10] While the German covered bond market is indeed much larger, it is supported by a large public loan segment that makes up some 85% of the market (IMF, 2007: 11).

[11] 'Mortgage Banks: Home Loan Industry may be Reshaped', *Financial Times,* 9 April 1997.

[12] http://www.skm.dk/foreign/statistics/marginaltaxforalltaxpayers.html

[13] Interestingly, this is justified on the grounds that such caps create 'restriction of access to credit for certain consumers' or, in other words, they prevent a subprime market that would permit just-creditworthy homeowners to acquire mortgage credit. See European Mortgage Federation (2005) 'EMF Position Paper on the Commission Green Paper on Mortgage Credit in the EU', Brussels, 29 November: 12.

[14] 'Nye boliglån sprænger Realkreditrådet', *Børsen,* 3 May 2007.

[15] 'Politikere vil sætte andelsboliger fri', *Børsen*, 11 March 2008.

[16] Hvidbog om realkredit i EU - optakt til øget harmonisering af realkreditmarkederne i Europa', press release from Realkreditrådet, 19 December 2007. Avaialble at: www.realkreditraadet.dk/ nyheder/hvidbog071219/article.html The EU 'White Paper on the Integration of EU Mortgage Credit Markets' is available at: http://ec.europa.eu/internal_market/finservices-retail/home-loans/integration_en.htm.

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