:WHR-afee2019

The Tenuous Grasp: Possession and Loss in the Marketplace

William Redmond

Indiana State University (Emeritus)

whredmond9@gmail.com;

JEL Codes: B52; D14; D63

Introduction

Generally speaking markets serve as provisioning mechanisms, facilitating the supply of goods and services to customers. Extensive supply chains with specialist intermediaries create a flow of diverse items to consumes. However, market institutions can also serve as a de-provisioning technology, taking things away from customers. That is, markets can work in reverse. One example is the repossession of a vehicle.

Like the forward movement of goods and services, this reverse flow involves market and legal institutions to accomplish the tasks involved. Reverse flows employ specialist employees and specialist suppliers who are not typically involved in forward-moving markets and are not often known to the customer at the time of purchase. It should be well noted that reverse flows, *per se*, are not necessarily a negative phenomenon. Recycling is a market mechanism working in reverse, taking materials away from consumers (Fisk 1974). In this way, the market creates a beneficial flow from the consumer back towards producers. By contrast, the present paper focuses on reverse flows with negative consequences.

The affected consumers are overwhelmingly lower income and minority (with the notable exception of the substantial number of mortgage foreclosures during the recent housing bubble and bust). This situation reflects a social class issue in which lower class individuals are predominantly affected, with middle and upper-classes much less so. Put another way, this is another example of an economic arena in which inequality plays a large role.

Two types of reverse markets are considered here. Consumers involved in repossessions or evictions generally enter into the exchanges in good faith but, with limited financial reserves, are differentially affected by vicissitudes of fortune which result in adverse financial circumstances. Those with the tenuous grasp truly live in conditions of uncertainty. Markets provide essentials of everyday life: transportation and housing. When these are taken away, even if temporarily, the result is financial and psychological loss. The buyers are, in a word, dispossessed.

Transportation Markets

Personal vehicles are woven into the fabric of everyday life, because inadequate or absent public transportation is a problem for many. Thus access to a personal vehicle is vital to most for purposes of employment, shopping, socialization or recreation. Vehicles are not only an issue of mobility but also reflect a sense of style and the status of the owner. Being highly visible, a vehicle is a representation *par excellence* of the individual. There is, therefore, some incentive for buyers to overextend themselves financially.

Most vehicle owners require some type of financial assistance when purchasing a new or used car, so a lease or a loan is generally needed. Whichever method is used, the total of payments is roughly the same. Around 107 million Americans have some form of auto debt, of whom more than six million are at least 90 days late on payments (Long 2017). Failure to stay current on payments is often a precursor to repossession and, in any event, impairs one's credit rating. Some 21% of car loans are considered subprime (*Economist* 2017). That is, the purchasers had a somewhat sketchy prior credit history. Repossessions are considerably more likely among this group. The legal status of possession makes a difference: in cases of bankruptcy, for instance, it is easier for a lessor to repossess than it is for a lender to repossess (Eisfeldt and Rampini 2009). The actual process of repossession, however, is similar in either case.

Like the more familiar institutions of the forward-moving auto market, the reverse market involves specialized market actors. It is an established principal that the loan is secured by the property, which serves as collateral (Goodwin 1973). Hence a physical retrieval of the vehicle is customary. Often, a repossession is accomplished by professional agents (Goodwin 1973). The repossession services industry in the US encompasses over 4500 business with annual revenues of about $500 million (Barnes 2017). Since the property is mobile, repossessions are facilitated at some dealerships and banks by a requirement that the vehicles be equipped with a GPS tracking device installed (Economist 2017).

In addition to cars, SUVs and pick-ups, markets for commercial vehicles operate in a similar fashion. There are rent-to-own businesses for truck drivers in which a used truck (tractor) can be arranged. Terms typically include a down payment and weekly payments. This is considerably less expensive for buyers in terms of up-front capital and acts as a sort of sub-prime market for trucks. However, by missing a single payment, perhaps for unexpected repair expenses, the truck can be repossessed and re-sold to a new operator (NYT 2016). Because the equipment is used, such unexpected repairs are not uncommon. A truck, however, may be at a considerable distance from its place of origin. Again specialized agents are engaged: repossessing a truck can cost $4-5,000 (NYT 2016).

Housing Markets

Two types of housing loss are of interest here: eviction from a rental property and foreclosure of mortgaged property. Both involve the failure to meet financial obligations and both result in displacement. Of the two, foreclosure generally involves a greater financial loss. In addition to financial loss, there are psychological and social costs including, sometimes, homelessness. However, as Crane and Warne (2000, 767) point out, "Evictions are common but only a small proportion result in prolonged homelessness". Nevertheless, homelessness entails severe personal trauma as well as substantial public costs (Wood-Bolye 2015).

Rental Eviction

The number of Americans evicted from rental housing runs into the millions every year (Desmond 2016). These are mainly lower-income individuals and families, for whom affordable housing is increasingly scarce. Monetary strains are significant for this population. The majority of poor renters spend over half of their incomes on housing and utilities, while a quarter spend over seventy percent. These have very thin financial cushions and can fall behind on rent with even minor financial setbacks. An eviction not only entails loss of the renter's deposit but is stressful and time-consuming to rectify (Desmond 2016). Complications associated with an eviction often entail loss of possessions or loss of hours worked or loss of employment.

Specialist market actors are engaged here as well. There is a minor industry supporting evictions: individuals and firms remove the evictees' household belongings and sometimes store the belongings (Desmond 2016). In many instances however, belongings are simply dumped outside and are subject to theft or damage. Lawyers represent landlords in eviction courts or other proceedings. Other lawyers may represent renters, often on a *pro bono* basis, but renters are most often not represented at all. The eviction courts themselves employ a variety of individuals, from judges to clerks. Public agencies, as well as private, are often called upon for assistance and temporary support.

Foreclosure

Default on home mortgage obligations results in foreclosure proceedings and eventual eviction from the property. Some US states require court proceedings while others do not, but all have legal remedies for removal. When a foreclosure petition is granted, the result for the former owner is financial loss, eviction, damaged credit status and, often, loss of household possessions.

The US housing crisis precipitated widespread financial distress for homeowners, and was particularly acute in states such as Nevada, California, Arizona and Florida. For example, by 2009, one in four Florida mortgage holders was either delinquent or in foreclosure (Dayen 2016). Many of these were subprime loans or interest-only loans or "liars' loans". At the peak of the crisis, Florida courts had a backlog of half a million foreclosure cases.

The reversal of home ownership also involves a market. Some very large banks, such as Bank of America, Wells-Fargo and Citigroup, offered loan servicing to mortgage lenders. These services are traditional in the mortgage business but in the high-volume foreclosure era were often marred by lost or improper paperwork, penalties, illegal fees, fee pyramiding, and force-placed insurance charges (Dayen 2016). This situation also caused explosive growth in a specialized type of law firm, known as "foreclosure mills", who represented lenders. One such (the David J Stern firm) grew to around 900 employees at one point (Dayen 2016). The volume of foreclosures in Florida was so great that sheriff's deputies could not handle the required notifications, with the result that the law firms hired their own process servers. As with rental evictions, there was also brisk demand for the services of workers to change locks and remove possessions. The housing crisis, however, represented a relatively rare situation in which large numbers of middle class individuals were affected, along with the more usual lower-income. Although the foreclosure fallout from the housing bubble has now passed, the issue remains, and is once again more concentrated among lower-income groups.

Discussion

Repossessions, evictions and foreclosures illustrate essential features of markets working in reverse. Buyers with limited financial resources make purchases with sometimes optimistic assumptions. A random financial setback renders the buyer incapable of meeting their financial obligations. The property owner, backed by force of law, seeks a recovery. Finally, specialized market agents are employed to execute the reversal.

Individuals have many ways to find themselves financially overburdened by instruments such as installment loans, payday loans, credit card debt and student loans, as well as vehicle and mortgage loans. Many individuals may be classified as debt poor (Pressman and Scott 2009).

The wide and growing disparity of incomes and wealth creates a discernable gap in individuals' ability to consume. As Veblen (1899/1979) explained, this sort of situation puts psychological pressure on individuals at lower levels to maintain a reputable level of consumption. Consequently, increasing income inequality gives rise to a greater dependence on credit for the maintenance of consumption expenditures (Brown 2008). Indeed, individuals may perceive little choice but to match others' expenditures (Redmond 2001).

The *Oxford English Dictionary* gives several senses of the term *dispossess*, of which the following is most relevant for present purposes: "To deprive (any one) of the possession of (a thing)," (OED 1991, 823). A feeling of deprivation weighs on the minds of the individuals who are dispossessed, producing mental states of anxiety and insecurity. In addition, such a visible and obvious loss of possession can occasion a loss of status among peers. Costs also accrue to the wider public in the form of judicial and various social services expenditures. Taken together the economic, psychological and social costs of dispossession are substantive.

In reverse-flow markets, economic costs fall on both transacting parties: repossession costs to sellers and dispossession costs to buyers. Sellers forego income from assets (albeit temporarily) as well as incurring various recovery costs. In their turn buyers lose down payments, deposits, equity positions, etc. They also incur impaired credit standing, and thus face higher deposit levels and interest rates in the future. While both sellers and buyers experience financial losses, their relative positions are materially different. The costs to customers, as a proportion of wealth and income, is considerably greater than that to sellers. In other words, inequality is worsened by yet another means (Redmond 2015).

Conclusion

Markets usually operate to provide things to consumers and move money away; reverse markets move both money and things away from buyers. The market for taking things away from people

obeys the same fundamental principles as do other markets. There is a balancing between supply and demand: market institutions serve to equate supply with demand, in either direction. It is unquestionably unfortunate that these reversals are visited heavily on the already financially underprivileged.

Property lies at the heart of market exchange, and it can move in either direction: market institutions facilitate both the forward and the reverse flow of possessions. When property rights fall into conflict with promises to pay, then market mechanisms are a recourse to restore property. As with most property rights issues, the legal system plays an adjudicating role. The interests of sellers in many markets are served and preserved by legal means (Dugger 1988). Power relations in reverse-flow markets likewise favor the sellers, who are familiar with the relevant legal framework and means of enforcement, as opposed to buyers who are not.

Market institutions facilitate both the forward and the reverse flow of possessions. The reverse flow in markets---of property back to original owner or note holder---is surely an economic phenomenon. Absent such discretion afforded by the legal system, property owners would be less willing to engage in exchange at all. But like all economic phenomenon, it has deep social causes and consequences. It prominently affects lower income individuals, injuring them psychologically and affecting their social status. In parallel with unequal economic outcomes, it represents and reflects unequal power relations in the marketplace.

References

Barnes, C. (2017), *2018 U.S. Industry and Market Outlook*, New York: Barnes.

Brown, Christopher (2008), Inequality, Consumer Credit and the Saving Puzzle, Cheltenham, UK: Edward Elgar.

Crane, Maureen and Anthony Wames (2000), "Evictions and Prolonged Homelessness," *Housing Studies*, 15 (5), 7577-773.

Dayen, David (2016), *Chain of Title*, New York: New Press.

Dugger, William (1988), "A Research Agenda for Institutional Economics," *Journal of Economic Issues*, 22 (4), 983-1002.

Desmond, Matthew (2016) *Evicted: Poverty and Profit in the American City*, New York: Crown Publishers.

Economist (2017), "Subprime, Anyone?" May 6, 69-70.

Eisfeldt, Andrea and Adriano Rampini (2009), "Leasing, Ability to Repossess, and Debt Capacity," *Review of Financial Studies*, 22 (4), 1621-1657,

Fisk, George (1974), *Marketing and the Ecological Crisis*, New York: Harper and Row.

Goodwin, John (1973), "Repossession and Sale after Default," *American Business Law Journal*, 10 (3), 221-231.

Long, Heather (2017), "6.3 Million Americans are Late on Their Auto Loan Payments," washingtonpost/news/wonk/2017/11/14 (Accessed July 23. 2018).

New York Times (2016), "Hauling a Load of Breakdown," May 1, B3.

OED (1991*), Oxford English Dictionary (2E),* Oxford: Clarendon Press.

Pressman, Steven and Robert Scott (2009), "Who Are the Debt Poor?" *Journal of Economic Issues,* 43 (June), 423-432.

Redmond, William (2001), "Exploring Limits to Material Desire," *Journal of Economic Issues*, 35 (3), 575-589.

Redmond, William (2015), "The Provisioning of Inequality," *Journal of Economic Issues*, 49 (June), 527-534.

Veblen, Thorstein (1899/1979), *The Theory of the Leisure Class: An Economic Study of Institutions*, Franklin Center, Pa: Franklin Library.

Wood-Boyle, Linda (2015), "Facing Eviction," *Communities and Banking*, 26 (1), 20-21.