Further Reading

Growing-Equity Mortgage

A growing-equity mortgage (GEM) is a scheme for paying off a fixed-rate mortgage (FRM) more rapidly by having monthly payments increase over time. The initial monthly payment is the same as for an FRM. Increments in the monthly payment are prepayments—they directly amortize the principal—and thus abbreviate the term of the mortgage and the total interest ultimately payable under the mortgage. For consumers who expect their incomes to rise faster than inflation, a GEM offers an attractive scheme of enforced saving.

In its operation, a GEM is like a graduated-payment mortgage (GPM). However, a GPM generally involves negative amortization: principal owed actually increases early in the mortgage term because the first few payments are not sufficient to cover interest expense. In a GEM, by contrast, the principal always decreases. To illustrate, suppose a consumer takes out a 25-year term mortgage for $100,000 at an annual uncompounded interest rate of 8.5%. If taken as an FRM, the monthly payment would be $805.23 for each of the 300 months in the term. Over the 300 months, the consumer would incur interest expenses that total $141,566. Suppose instead, the consumer takes this as a GEM with payments that increase monthly at a compounded rate of 0.25% (that is, just over 3% per year). The Month 1 payment would still be $805.23, but by Month 191, when the loan is fully repaid, the monthly payment would have risen to $1,274.81. In all, the consumer would have paid only $88,613 in interest. If, alternatively, the consumer takes this as a GPM (again with a monthly increment of 0.25%), the Month 1 payment would be only $614.80, the Month 300 payment would be $1,297.07, and the total interest paid would be $174,208. With both a GEM and an FRM, principal owing falls steadily over time from its starting value of $100,000; in a GPM, principal owing rises initially, peaking at $103,809 in Month 72. (SEE ALSO: *Alternative Mortgage Instruments*)
—John R. Miron

Further Reading

Growth Machines

A growth machine is a conceptual term for the view that cities are under the control of development interests who use local government as a tool for their growth goals. First coined by sociologist Harvey Molotch, cities as “growth machines” means that those who derive benefit from commercial land use markets—builders, realtors, local financial institutions, and their supporting professionals (real estate attorneys, accountants, civil engineers) are the most potent force at the urban level. Local newspapers, dependent on regional expansion for their own market growth, are also a key constituent of the “growth coalition.” As repeated across the national landscape, growth machine dynamics become the important political and moral force shaping the national urban system—what goes on within cities as well as relations between them. Congruent ideas have been put forward by political scientists Clarence Stone (based on Atlanta), John Mollenkopf (based on San Francisco), Todd Swanstrom (based on Cleveland), planner Susan Fainstein (using many cities), and Molotch’s collaborator, sociologist John Logan.

Contrasts with Other Schools of Thought

The growth machine concept differs from “power elite” theory, with which it is sometimes associated, because it stipulates that only a segment of the business elite, those with interest in local development per se (as opposed, for example, to corporate owners and managers) play the important local political roles. Although growth elites may act in concert with other business groups and, indeed, help “prepare the ground” for their land use needs, there is a distinction between those who do business in a particular place and those who make money from the manipulation of place itself. This sets up at least the possibility of conflict within the business community as to how local land use should be managed.

The growth machine concept differs from the views of most economists who tend to view any form of development as intrinsically good for the locality, at least those emerging from the private market. But using growth machine theory, the consequences of development are suspect because of the way market conditions are structured under elite domination. For growth machine theorists, unless localities capture the true costs of development, as carefully measured, any given project is a net loss and the locality would be better off without it. Development is not necessarily a good, even in the terms most often represented as its primary advantages—easing problems of unemployment, high housing costs, or fiscal crises. Researchers have found that cities that are larger, denser, or have higher rates of growth do not outperform other cities on standard indicators of public well-being.

Another distinguishing attribute of growth machine theory is its insistence on questioning how specific groups will be differently affected by a given project or by growth policies overall. Some analyses treat a city’s rank in population, aggregate production, or volume of construction as proxy for benefit. But again, effects on diverse urban groups need to be traced; growth machine theory invites investi-