

Financialization of housing, social policy and inequality

A case study of South Africa

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Abstract

The paper analyses the evidence and impact of housing financialization in South Africa. It gradually develops a mapping of the various interlinked characteristics of financialization and housing in the country. This mapping supports a structured discussion regarding the impact of housing financialization on income and wealth inequality trajectories. The identification of relevant characteristics of financialization follows a Marxist perspective on financialization, outlined by Fine (2013). Within this framework, the role of housing is understood in its capacity to absorb capital from a primary productive circuit of circulation into a secondary circuit for continued accumulation. Financialization, therefore, represents the increasing role of interest-bearing capital (IBC) and its prevalence in more fictitious forms. On this basis, the paper looks for evidence of financialization processes in the South African housing market and its implications for mortgage and housing access in low-income segments of society along with the role of public homeownership promotion policies.

The analysis shows how the evidence of financialization processes, such as an increasingly relevant financial sector, short-term foreign investment inflows and increasing debt levels as well as the changing investment pattern of domestic companies impact the local housing market. In the presence of such financialization processes inequality aspects of housing are implicated through the highly exclusive mortgage access, growth of informal settlements, and repeating patterns of racially based spatial segregation. It also shows the limits of housing financialization in the country which include the lower levels of securitization of mortgage and the role of REITs in the residential property market. The various public housing policies of the past decades, which aimed at promoting homeownership for restorative justice and incentivizing private actor involvement in low-income mortgage markets, have not been able to cope with these negative trends. Increasing unemployment levels for low-skilled workers due to de-industrialization, shifting profits towards the financial sector, a volatile housing market and the dependence on generational wealth for housing access and asset-based welfare are outcomes of financialization which constitute a divergent impacts on income groups and exacerbate existing inequalities. These developments further challenge the effectiveness of the chosen public policies in the low-income housing market. Furthermore, the vigorous promotion of private actor involvement, such as banks and housing developers, by national and local governments and the broad privatization of public housing provided a basis for the further commodification and financialization of housing in South Africa. The replication and expansion of inequalities in South Africa in the past decades after its democratic transition can be seen as a social reproduction of uneven social class relations under financialized capitalism.

Keywords:

financialization, housing, South Africa, inequality, mortgage access, social policy

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Abbreviations

ANC	<i>African National Congress</i>
FIRE	<i>Finance Insurance Real estate</i>
DHS	<i>Department of Human Settlements (South Africa)</i>
GDP	<i>Gross domestic product</i>
GFC	<i>Global Financial Crisis</i>
GEAR	<i>Growth, Employment and Redistribution Programme</i>
Global North	<i>This analysis includes Europe, Canada and the US in this category</i>
Global South	<i>This paper "refers broadly to the regions of Latin America, Asia, Africa, and Oceania," excluding Australia and New Zealand (Dados & Connell, 2012)</i>
IBC	<i>Interest-bearing capital</i>
IFS	<i>International financial subordination</i>
MEC	<i>Mineral Energy Complex</i>
REITs	<i>Real estate investment trusts</i>
RDP	<i>Reconstruction and Development Programme</i>
SARB	<i>South African Reserve Bank</i>
SVM	<i>Shareholder value maximization</i>

I. Introduction

Housing is a fundamental aspect of every individual's life as part of a basic need for shelter and physical protection. It is simultaneously a crucial factor determining a household's overall financial and material situation. It often represents the largest personal asset and therefore amounts to a significant part of one's private welfare and social security (Schwartz & Seabrooke, 2008, p. 237). In South Africa, housing has special significance because of the history of apartheid dispossession, which stripped black South Africans of their rights to land and housing, particularly in urban, "white" South Africa. In post-apartheid South Africa being a homeowner thus also carries a political valence and is a symbol of liberation. For examples of the political and symbolical value of housing in South Africa see Erwin (2014) on the Kenneth Gardens neighborhood; Salo (2018) on forced removals to Mannenberg and gender aspects of South African townships; Benson (2015) on Crossroads housing activism; Miraftab & Wills (2005) on the anti-eviction campaign; or Ismail (2015) on the Victoria Mxenge housing project.

Beyond its value as a symbol of equal citizenship and a means of accommodation for individuals, the real estate market at scale has macroeconomic relevance and is shaped by national and global economic developments. Mortgage financing links homeowners to international capital markets that generate interest from lending credit to households (Habanabakize & Dickason, 2022, p. 2). Therefore, developments in the global housing and financial markets will affect a household's finances and social welfare at the individual level and impact the overall distribution of wealth at large. This paper will explore the connections between the changing dynamics of the growing importance of financial capital in the global economy, which is generally understood as financialization, and how this links to mortgage markets, housing prices, housing policies and inequality levels in South Africa. More specifically, it will first provide evidence of different characteristics of financialization present in South Africa and then apply their implication to the housing market in South Africa. Through a mapping of interrelated characteristics of financialization, it will explore the effects on inequality trajectories in the South African housing market across and between different income groups, as well as the respective impact on housing access for low-income households. Low-income in this analysis generally refers to households with no formal income or less than the minimum income needed to enter private mortgage financing. It will therefore contribute to the growing literature surrounding the financialization of housing, link social outcomes to

the financialization process and provide a discussion of literature on the increasingly researched financialization of the Global South (Aalbers & Fernandez, 2016, p. 2; Karwowski, Fine, & Ashman, 2018, p. 385; Lapavitsas & Soydan, 2022, pp. 1-2; Bonizzi, Kaltenbrunner, & Powell, 2022, p. 651).

South Africa provides an interesting case study as it shows features of both a strongly developed financial industry with one of the highest stock market capitalizations to gross domestic product (GDP) while also struggling with the historical legacy of Apartheid, high unemployment, and large informal settlements (Andreoni, Robb, & van Huellen, 2021, p. 213). This is relevant to the aims of this paper, which will link the financialization and financialization of housing processes to inequality outcomes. Furthermore, it is argued that due to specific policy choices advancing the internationalization of the economy and promotion of foreign investments, before and after the transition to democracy in 1994, South Africa was well placed to experience rapid processes of financialization (Ashman, Fine, & Karwowski, 2021). This relevance will be shown in the case of housing and mortgage finance with the nuance of specific outcomes for divergent income segments. Housing in South Africa concerns a complex discourse which differs along various lines regarding housing as a financial or personal investment versus a right to housing and shelter for low-income households. The discourse on housing needs varies due to an urban-rural divide, various housing typologies and significant spatial inequalities. (Tissington, 2010, pp. 29-30) Furthermore, South Africa's location in the Global South allows for the advancement of the financialization of housing research at the periphery of the usual Global North centred approaches. It is essential to acknowledge that especially the research on the socio-economic impact of financialization in the Global South is still limited but a rising number of academic publications are emerging on this topic (Karwowski, 2018, p. 4). This paper will contribute to this growing body of literature by showing the linkages between the financialization of housing and social outcomes around housing access, inequality, and the spread of informal settlements in South Africa.

Moreover, South Africa has distributed large quantities of formal housing to low-income households as part of a restorative justice approach to address the housing needs of previously marginalized groups under Apartheid. (Levenson, 2017, p. 6) The variety of social policy programs linked to housing in South Africa has been relatively great since 1994, ranging from direct high-quantity and low-quality delivery to indirect mortgage access promotion with

private sector involvement. The main government programmes aimed at increasing access to housing are discussed in sections 4.2 of this paper. At this point, it is important to note that most of these housing policies ultimately aimed to reduce wealth and income inequalities. This paper goes a step beyond this, by explaining why one could reasonably describe the housing market in South Africa as financialized, and by then linking the impact of the financialization of housing to the current and future trajectories for inequality outcomes. It will also, to a lesser degree, discuss how the financialization of housing impacts the ability of the state to implement housing policies such as direct delivery or mortgage access promotion. It will be argued that beyond the direct housing policy, many macroeconomic policy decisions, and economic developments associated with financialization of the broader economy, such as the changing sectoral makeup of the domestic economy, corporate investment behaviour and global flows of capital, will have relevant implications for inequality and housing access outcomes in South Africa.

Financialization, the central theoretical concept of this thesis, does by no means possess a universally agreed definition. It is, therefore, necessary to outline some of the critical pillars of understanding underpinning its application throughout this research. The following section will introduce the chosen underlining theoretical framework, guiding the analysis throughout this paper.

1.1 Financialization

There is broad consensus amongst authors that the past 35 years have seen changing dynamics in global capitalism that were closely linked to the growth of "financial activities, markets, motives and institutions (...) relative to other aspects of the economy", which at least partially heightened economic instabilities and increased inequalities (Epstein, 2015, p. 13). During this period, there is clear empirical evidence of financial services contributing to a higher share of GDP in many countries. Despite this evident trend of proliferation of financial services, institutions and rationalities into new sectors (e.g. social welfare), the general definition of financialization has been challenging and a continuous source of theoretical debate. Indications of an increasing process of financialization have been observed in a variety of ways, including the expansion of financial markets as a ratio of financial assets to global GDP, which exceeds a factor of three in the past 35 years, the expansion of speculative assets relative to productive investment, the increasing presence of financial instruments and services, an expanding dominance of finance over industry, and the respective relative share of income to rentiers

(Fine, 2012, p. 56). Bonizzi, Kaltenbrunner and Powell similarly provide a list of characteristics of financialized capitalism which includes the institutionalization of wealth, transformation of banking, the production of new securities, internationalization of finance and the increasing governing through financial markets (2022, p. 657).

Beyond the various indicators, Fine (2013, p. 48) presents three reasons that explain the variety of understandings of the term financialization. First, it explains trends across different financial markets regarding location, time, and specific application. Second, finance has a multitude of connections with the economy. Finally, the theorization of finance is connected to the fundamental theoretical understandings of capitalism and the economy. Despite the lack of a standard definition, Epstein (2005, p. 3) provides one of the most cited definitions, which refers to financialization broadly as "the increasing role of financial motives, markets, actors and institutions in the operation of the domestic and international economies". While his definition achieves wide popularity potentially due to its broad range of applications, it also illustrates the problematic feature of the term as being too broad without sufficient explanatory bite.

To analyse the phenomenon of financialization in a theoretically consistent and relevant manner, this paper will use the specific framework of a Marxist economic perspective to examine the empirical case study of the South African housing market. Prominently conceptualized by Fine (2013, p. 55), financialization from a Marxist perspective is the expansion of interest-bearing capital (IBC), distinct from non-profit-oriented lending and borrowing to facilitate exchange, both *intensively* and *extensively* across the economy (Fine, 2012, p. 58). More specifically, it refers to the expansion of fictitious capital, forms of debt that can circulate independently of its credit condition's performance. It merely represents a potential future return to be generated and can therefore be speculatively traded (Marx, 1972, pp. 267, 338-339, 342-342; Fine, 2013, p. 50). Harvey (2004, pp. 71-72; 2012, p. 42), another influential scholar examining changing dynamics of global capitalism from a Marxist perspective, further highlights this dilemma of the necessity of a credit system to facilitate "production, circulation, and realization of capital flows" and the balancing of consumption needs with production while simultaneously allowing for increasingly unproductive activities for purely speculative investments through IBC to extract profits in financial markets. Similarly, Mollo, Dourado and Paraná (2022, pp. 959-962, 973) argue that especially the

speculative processes of the stock market show the disconnection between real value of production generated by labor and the fictitious value of financial assets. Gotham (2009, pp. 356-357) further argues that financial capital as in the process outlined above is trying to “annihilate boundaries and space to accumulate.” This will be relevant to the discussion of housing later on, which focuses on processes of securitization and the creation of additional liquidity of assets which link directly to the proliferation of fictitious capital and its disconnection from real value creation. It will be shown in section 4.4 that such processes are similarly relevant for the South African housing market where there has been a policy-induced commodification of public housing (4.4a), a relatively small but growing securitization in certain segments of mortgages (4.4b), the flow of IBC out of non-financial corporations into the financial and specifically the mortgage market (4.4 c-d), growth of corporate actors in the housing market and increasing instability of housing prices (4.4 e-f).

The *intensive* expansion of IBC refers to the direct expansion of existing financial assets and their widespread use and relevance to the economy. This includes the increasing presence and use of “derivatives, futures, foreign exchange, mortgages, government instruments, as well as stocks and shares” by various groups across the economy, either traditional financial actors at a larger scale or also less traditional actors such as non-financial corporations, public institutions and many private individuals. (Fine & Saad-Filho, 2016², p. 153). This illustrates how financialization from a Marxist perspective can be understood as a shift from the productive economy towards more speculative mechanisms through the increasing use of IBC-based accumulation and distributing surplus (Fine, 2012, p. 56). Generally, it refers to a “shift of the command of productive and other commercial capital to the imperatives of interest-bearing capital at a systemic level” (Fine, 2012, p. 58). The *extensive* proliferation of IBC refers to the entry of IBC into new categories of economic activity, such as, for example, new housing market segments through interest-motivated mortgage lending, which will be highly relevant for the research at hand. Moreover, *extensive* growth often unfolds in areas traditionally more associated with social goods and services outside conventional areas of economic activity where new actors have become subordinate to IBC, such as non-financial corporations, households, and the nation-state (Fine, 2013, p. 56). This also includes areas such as “health, education, energy, telecommunications, transport, housing finance, pensions, benefits, social care, and much more”, which were previously unlinked from private capital

markets by a Keynesian economic policy that expanded public budgets and created large welfare states (Fine & Saad-Filho, 2016², p. 153).

The Marxist perspective, according to Fine (2013, pp. 48-50), has the advantage of being both systemic due to its ability to explain economic functioning as a whole and dynamic as it will explain a particular phenomenon in the specific historical context and as a set of processes that are underlying the current system and distinguishes structural changes in the accumulation of surplus from particular features of a certain time period such as, for example, a specific economic crisis (Harvey, 2012, p. 37). The distinction of cyclical vs. non-cyclical financial phenomenon is therefore important to distill the specific characteristics of systemic change (Bonizzi, Kaltenbrunner, & Powell, 2022, p. 652). The ability to include such systemic shifts represents a general advantage over mainstream economics, which aims to create universal explanations based on principles such as equilibrium, optimization, and efficiency and only rarely study financialization as a process changing the capitalist economic system (Sawyer, 2013, p. 10). Furthermore, it can analyse the "capitalist economy around accumulation of capital through production, circulation, and distribution of surplus value as a totality of economic relations processes, structures, dynamics, and corresponding agents", which would be more difficult in a calculus-based system of mainstream economics (Fine, 2013, p. 48).

Historically the question arises if financialization represents a new stage of capitalism and how it relates to Marx's prediction of increasing socialization, which refers to an increase in working-class consciousness and ultimately leads to a socialist revolution. Fine (2016¹, p. 1; 2013, p. 57) argues that the broad changes stemming from financialization regarding the production and distribution of surplus value generated in the economy both *intensively* and *extensively* would underpin the current neoliberal stage of capitalism. This view is also shared by Lapavistas (2011, p. 623; 2013, p. 793), which argues that financialization significantly altered the behaviour of non-financial corporations regarding their financial activities and financing, individuals' exposure to financial markets and the increasing involvement of commercial banks speculative investments. These significant changes, he argues, make financialization a distinct phase and transformation of mature capitalism. Other authors, such as Epstein (2015, pp. 5, 13), position themselves as "agnostic" regarding whether financialization represents a new stage of capitalism.

Another crucial and distinct feature of Marxist approaches is the importance of class relations and their social reproduction and changing configurations relative to capital accumulation and the production process, which will be especially relevant in discussing the financialization of housing in the light of inequality trajectories and housing access in South Africa (Powell, 2018, p. 3). From a Marxist perspective, capital becomes crucial not only as a process of circulation between production and sale and the respective surplus extraction but also as a social relation that reproduces and changes class relations between capitalists (capital owners) and laborers. This will be crucial when looking at the specific case of housing as it not only represents a financial asset or commodity of the production process but a central process of the reproduction of uneven social relations between those classes (Aalbers & Christophers, 2014, pp. 375, 377-381). According to Ashman, Fine and Karwowski (2021, p. 2), emphasizing "evolving class formations, interests and strategies over time, and how these are important for understanding change" allows the connection of social and historical features of the South African context with the concepts of "neoliberalism, globalization and financialization". Looking at social class relations provides a framework which connects historic inequalities stemming from Apartheid and earlier to the processes of neoliberal macro-economic and housing policies chosen by South African post-apartheid governments. Similarly, it helps explain how the push to globalize the economy and wealth ownership with its racially segregated features has led to the current changes or inhibitors of change for South Africa. With a globally increasingly financialized economy and features of such present in South Africa looking at historic and evolving class relations within the country will continue to be crucial to understand society and on what basis it will evolve.

Beyond the Marxist accounts, there has been a popular alternative stream in the financialization literature that is represented by post-Keynesian authors who stress the role of the "functionless" rentiers, which would cease to exist in a system of capital abundance but currently "extracts profits due to the scarcity of capital and might thus depress investment and profitability", which operates in an "inherently unstable financial system" and therefore provides no productive contribution to the economy (Zwan, 2013, p. 101). While overlapping in many of the indicators and the rejection of methodological individualism, it contrasts partially with the production and capital relationship-focused Marxist explanations, where the rentier plays a minor role, and there is a less significant focus on the role of demand as part of the exchange function. (Lapavistas, 2011, p. 615). Further differences include the emphasis

on the role of the state, monetary developments, and macro-financial outcomes in post-Keynesian analysis versus the focus on social relations of production and class, and the distribution of surplus value and costs in Marxist analyses. From the respective focuses of each approach also stem the major shortcomings of explaining and analyzing the other's determinants. For Marxism, this would concern its limited view of monetary and macro-economic insights and for Keynes the lack of productive social relations and practices which underly the monetary system. (Alami, et al., 2022, p. 10)

Other authors focus on the specific role of corporations, their investment behaviour, and the changing role of shareholder interests in their decision-making, such as Froud et al.'s (2000, p. 104) meso-level analysis focusing on corporate ownership structures and their relations to capital markets (Fernandez & Hendrikse, 2015, pp. 3-6; Karwowski, 2018). Furthermore, some approaches highlight the role of finance in everyday life, representing the broad integration of individuals across society into financial markets and technologies by creating private investors through a "democratization of finance". These approaches go beyond a material understanding of economic structures and refer to more subjective and individualistic determinants which drive financialization. (Zwan, 2013, p. 111) Elements of such financialization processes could include the marketisation of social services or the proliferation of debt in a society which commodify daily life and exposes them to dislocated impacts of international markets (Isaacs, 2018, p. 87). These refer to potential research focuses and can include various overlapping indicators for financialization as well as different theoretical understandings such as Marxist and Post-Keynesian perspectives.

As mentioned earlier, this paper will follow Fine's approach of a Marxist perspective of financialization to gradually develop an understanding of the financialization of housing through the empirical case study of South Africa. The advantage of the Marxist perspective over other potential approaches is its ability to explain restructuring processes within capitalism which focus on the changing role of capital in the production process as well as the process of capital switching away from production and the respective spread of fictitious capital at a capitalist system level and distinguishes underlying systemic changes from temporal ones. This allows for a much broader analysis of the changing role of IBC across the economy than post-Keynesianism, the other popular theoretical perspective on financialization. Unlike Marxist approaches, the post-Keynesian analysis focuses on the exchange function between demand

and supply, especially the role of changing demand levels, directly and indirectly, and its determining aspects for wages. In this view, production conditions would follow the respective equilibrium defined by demand and supply. (Fine & Saad-Filho, 2016², pp. 58-60; Lapavistas, 2011, p. 614) The Marxist approach allows for a more independent analysis of the changing role of profits, the distribution of surplus value from production, and the structural process of capital switching towards more fictitious forms. This approach is therefore advantageous over the post-Keynesian one in providing a basis to provide a comprehensive analysis of the spread of IBC *intensively* as well as *extensively* in the South African housing market, as it goes beyond the analysis of macroeconomic indicators and the "arena of exchange" activity where production and technological factors are extraneous (Fine & Saad-Filho, 2016², p. 58). It has the advantage of seeing finance with all its sub-components of rentier, financial markets, and institutions as part of the global system of dysfunctional capitalism and distribution of surplus, allowing for a less rentier-focused analysis of financialization than provided by the post-Keynesian theorists. (Powell, 2018, p. 2) Furthermore, the strong emphasis on uneven class relationships and social reproduction allows the study of inequality in the current phase of financialized capitalism. It allows both the theoretical structural analysis at a dialectic global capitalist level while also implying specific context related dynamics which can be analyzed in the light of the South African case study (Isaacs, 2018, p. 20). The Marxist perspectives on financialization further allow for a coherent analysis of the subordinate position of countries in the Global South shaped by imperial relations regarding the extraction of surplus by the inflow of foreign IBC for corporate investments, the relative positioning of currencies, and the shifting class relationships internationally. These developments are analyzed under the theoretical concept of international financial subordination (IFS), which will be discussed in more detail in the specific case of housing in the third chapter. (Powell, 2013, pp. 3, 19; 2018, p. 2)

While financialization has been conceptualized and studied in a variety of contexts some authors also argue that its explanatory value and applicability is limited. Christophers (2015, pp. 187-189) defines five ways in which financialization is limited as a concept and in its empirical applicability. According to him the limitations around the definition of such an umbrella term (analytic), its potential limits as a mere label rather than powerful theory in certain applications (theoric) and the sometimes questionable value of the concept (strategic) to produce new insight all show limits of the term financialization. The empirical limitations are defined by its

specific focus on certain phenomenon and limited timeframe due to its novelty as a concept (optic) and the limitations when trying to apply financialization to various contexts with divergent institutions, financial culture, political processes besides many other specificities (Christophers, 2015, pp. 192-194). This paper aims to overcome some of these limits by providing a theoretical overview and solid definition of the respective financialization concept and specific application used in this paper. Furthermore, the now substantial body of work on financialization outside of the Global North, to which this paper belongs, has partially addressed some of the critiques aimed at the scope of financialization research.

1.2 Neoliberalism

When studying the changing nature of capitalism by looking at the phenomenon of financialization, it is necessary to include a discussion of the other related influential concept with a broad societal, political and economic impact over the past decades, namely neoliberalism. Fine (2010, p. 12) emphasizes the importance of treating the concept of neoliberalism according to its relative use and the resulting differences in understanding depending on the context of its usage. These include the difference between rhetoric uses in advocacy or ideological discourse, in academic research, and in government policy practice. Each of these might produce a "shifting in content and emphasis (across time and place) and, whilst they have connections with one another, these too are shifting and by no means mutually consistent" (Fine, 2010, p. 12). In academic research, neoliberalism has been understood in a variety of ways across literature, including the link to its theoretical economic origins in the (neo-) Austrian school and monetarism, a "set of policies, institutions and practices" linked to those ideas, a changing power dynamics between social classes in favour of capital, and a "material structure of social, economic and political reproduction underpinned by financialization" (Fine & Saad-Filho, 2016¹, p. 2). As the theoretical perspective on financialization within this research is based on a Marxist political economy approach, creating the relevant conceptual link to neoliberalism will be necessary. Fine and Saad-Filho (2016¹, p. 7) define neoliberalism as a system of accumulation supported by a financialized material basis. It is therefore underpinned by it "analytically, economically, politically and ideologically" and since the 1970s has been the main driver of capital restructuring in the global economy. Generally, this refers to an expansion of private capital markets, including commodification and privatization, during the period of neoliberal capitalism and the specific expansion of finance as part of the underlying financialization process. This corresponds to a "heavy

subordination of economic and social policy more generally to the promotion of markets in general and especially of finance" (Fine, 2012, p. 59).

Byrne and Norris (2022, p. 186) define the following three characteristics of neoliberal policy which will be especially relevant in the context of housing financialization later on: the austerity of macroeconomic policy, a shrinking welfare state with the privatization of certain functions and lastly the policy-led integration of households into financial markets. It is important to note however that many of these shifts were mostly not caused by a conscious neoliberal agenda but rather through a process of seemingly non-ideologically practical and concealed actions. An important illustration of such subordination of policies is the heavy governmental support to sustain the existing financial system during the recent global financial crisis GFC (Fine, 2012, pp. 53, 62). This shows how beyond accumulation and production processes, the state plays a vital role in the restructuring of capital towards more financialized forms of capitalism and liberal policies promoting the expansion of financial markets and the reproduction of neoliberalism (Fine, 2012, p. 58). While neoliberalism is not reducible to finance, the past decades have shown that neoliberalism is heavily involved in the reproduction of financialization and the respective growth of financial markets. (Fine, 2012, p. 63; Fine & Saad-Filho, 2016¹, p. 9)

Marx refers to the initial historic commodification of land through peasant expulsion, the proliferation of private property rights, colonial- and imperialism, and appropriation of natural and other assets as primitive or original accumulation. Based on this historical analysis, David Harvey (2004, p. 73) argues that the current processes of capital accumulation, under liberal conditions, would only reproduce the class relations and uneven wealth distributions set out by this primitive accumulation. Neoliberal policies to liberate and expand markets from a Marxist perspective of social reproduction would, therefore, not produce better relative conditions for all but increase inequality overall, as observable in the past decades of its proliferation (Harvey, 2004, p. 73).

Financialization as the current stage of mature capitalism, through its expansion of IBC intensively and extensively across the economy, drives neoliberalism's social reproduction and industrial capital restructuring in the current neoliberal phase of capitalism (Fine & Saad-Filho, 2016², p. 157). Neoliberal policies and their role in the political reproduction of financialized

capitalism are "generally referring to the new political, economic, and social arrangements within society that emphasize market relations which are re-tasking the role of the state, and individual responsibility" (Springer, Birch, & MacLeavy, 2016, p. 2).

From a historical Marxist perspective, neoliberalism has undergone two phases of a specific ideology, theory, and policy. Under Reagan and Thatcherism, there has been an expanding state intervention to promote privatization and private capital in favour of a free market in the US and UK, respectively, but with similar global dynamics. In the second and current phase of neoliberalism, the tendency of states across the globe is to intervene to deal with the effects of this first phase and uphold the current economic system defined by financialization (Fine & Saad-Filho, 2016², p. 153). Institutional transformation to spread self-regulating markets and private capital under neoliberal policy agendas in its first phase has enabled financialization to unfold more rapidly and therefore increased the impact of an increasing influence of finance over all elements of social reproduction. In the South African case, the implementation of these policies was distinct at the moment of the transition to democracy, as neoliberal democratic political ideas linked to the models of the US and UK were increasingly dominant on a global scale.

This international tendency to embrace neoliberal models has also fundamentally influenced the trajectory of post-Apartheid South Africa, and it is argued that South Africa leapfrogged some of these developments. Furthermore, South African policy choices were limited by the hegemony of the previously described neoliberal models while restructuring and internationalizing its economy. (Bond, 2005, pp. 15-17). In South Africa, the shift from the recommendations of the Macroeconomic Research Group (MERG) to a version of the Reconstruction and Development Plan that made redistribution contingent on growth is typically framed as one of the fundamental indicators of the ANC government's embrace of a neoliberal model being in the sphere of service delivery, see Van Niekerk and Padayachee (2019), Adelzadeh (1996), Habib & Padayachee (2000), Marais(2000). At the level of cities, the embrace of a pro-market approach towards urban governance since at least the 1980s was studied by Western (1997), and in the 1990s by scholars such as McDonald (2007), Ballard (2017) and Peet (2002). In the field of housing policy, early interventions aimed at reconciling the need for low-cost housing with the need to bolster pro-market policies (and sustain the MEC in particular) include Anglo-American's establishment of the Urban Foundation, which

presided over the establishment of a housing scheme for black South Africans in the apartheid period. Huchzermeyer (2001) has written about the post-apartheid South African government's shortfalls in providing housing for the poor, and partly attributed this to its pro-market approach to housing delivery models the ANC elites adopted because of external pressures they faced during the democratic transition to adopt neoliberal policies as well as the implementing only role of local government.

Beyond the Marxist perspective on the nature of neoliberalism and its linkage to financialization, there has been an active debate on the nature and application of the term neoliberalism. Its broad use, according to Venugopal (2015, pp. 166, 169), has led to "conceptual ambiguity", and its use in literature has become "controversial" and "incoherent". He further argues that neoliberalism's extensive use has overstretched its explanatory capacity. Moreover, its broad usage has led to "contradictory and opposite" usages, further undermining its usability and creating an explanatory burden linked to its use. Nevertheless, the specific understanding of neoliberalism as the current phase of capitalism underpinned by financialization and the specific characteristics of capital restructuring will be the definition applied for the analysis of this minor dissertation. While acknowledging the active discourse around the two concepts of financialization and neoliberalism, this paper will not provide any theoretical advances regarding the concept of neoliberalism and, as already indicated, will commit to the specific theory of financialization from a Marxist perspective laid out by Fine and Saad-Filho to analyse the impact of the financialization of housing and its linkages to inequality and social welfare housing policies in South Africa.

2. Methodology

This chapter will outline the research question of this minor dissertation, comment on the chapters' structural flow and content, and limit the focus and timeframe of the case study.

Research questions

This paper aims to answer which characteristics of financialization and, more specifically the financialization of housing, impact inequality trajectories and housing access in South Africa. It will analyze various indicators of financialization which have been selected based on a Marxist theoretical framework by Fine, as outlined in the previous chapter. The South African case study will connect the characteristics of a financialized housing market (primary focus) to the

socio-economic outcomes of inequality, employment, and housing access (secondary focus). Finally, it will identify the linkages between the financialization of housing and the state's ability to bridge the housing gap with respect to restorative justice aims, maintenance of homeownership, management of informal settlements and the extension of mortgage access in South Africa.

Methodology

The theoretical framework of financialization outlined in the previous chapter uses a Marxist political-economic perspective to undertake a coherent, theoretically informed case study. The Marxist theoretical approach has the advantage of seeing capitalism within the South African state as one system of social class relations. It allows the study of a changing pattern of distribution of capital accumulation and, therefore, inequality trajectories. (Powell, 2018, p. 3). This theoretical foundation will be used to justify and identify the specific characteristics of financialization in the housing and mortgage market in South Africa. This case study tries to a certain extent to address the various limitations of the financialization research as outlined by Christophers (Christophers, 2015, p. 189). By providing a clear definition and choosing a specific theoretical basis this minor dissertation attempts to move past the conceptual uncertainty of the term. Drawing on specified indicators and published empirical research it tries to develop a visual mapping of the drivers and consequences of financialization in the South African housing market since 1994. Financialization's processual nature will be reflected by identifying conceptual relationships which can be empirically analyzed but provide longer-term fluid relationships between different factors and outcomes of financialization.

Chapter 3 will present the theoretical background of the financialization of housing from a Marxist perspective. The following chapter discusses the South African case study, and will gradually build a comprehensive overview and mapping of indicators linked to the research question above and consolidate them into a visual model. The model aims to provide a relatively comprehensive overview of the indicators relevant to discussing the financialization of housing in South Africa. This can then be used to investigate the specific implications for income and wealth inequality as well as housing access from a Marxist perspective. The model will be developed gradually throughout the chapters, and each element will be outlined with reference to the literature and, in some instances, accompanied by quantitative data. It further provides insights into the flow of IBC as well as reciprocal relationships between different

characteristics of financialization in general and the specific case of housing in South Africa. The hope is that the model may further enable future researchers to zoom in on specific linkages or analyze other potential implications of a financialized housing market in South Africa. For a more detailed model of the flows of capital, it could be useful to study David Harvey's illustrations which also include flows of capital and governmental relations but is more elaborate regarding the specific flows of goods, labor, and capital ("The structure of relations between primary, secondary and tertiary circuits of capital" 1985, p. 9). A similar model was developed by Ashman, Mohamed, and Newman, where they developed the linkages between corporate financialization and employment dynamics in South Africa (Newman, 2014, p. 30). Another example of a specific causal mapping of the South African context is presented by Karnowski's (2012, p. 6) analysis of the over-capitalization of non-financial corporations (NFCs) and their impact on the mortgage market. The general direct impact of financialization on inequality trajectories will first be discussed at the end of chapter 4.3. A broader analysis of the specific impact of housing financialization on inequality and housing access will be presented in chapter 5 after having outlined the characteristics of the financialization of housing in South Africa.

The paper focuses on national level dynamics instead of a municipality or city-specific dynamics in order to connect macroeconomic developments to social welfare outcomes. The Marxist perspective provides the framework to study the general restructuring process of the accumulation of capital and social reproduction in the global economy, as presented by Marx in *Capital Volume I*, and allows to connect these processes at the abstract level to the specific case study of South Africa (Powell, 2018, p. 2). Therefore, the research will primarily focus on the impact of macroeconomic factors on housing, financialization and inequality in South Africa to maintain the connection to this general theory and global processes. Furthermore, the analysis will exclude most of the specific dynamics linked to the COVID-19 pandemic as this would be an area of its own research regarding its social and economic impact. Regarding the time frame, the paper will limit itself mainly to the period after the democratic transition of South Africa in 1994 up to the pre-COVID-19 year of early 2020, with a few historical references to relevant factors before that period.

3. Financialization of housing

The introduction provided a general overview of the Marxist perspective on financialization and its linkages to neoliberalism. Building on the theoretical framework outlined by Fine, this chapter will link this framework to the specific field of financialization of housing. It will further discuss some global trends associated with the increasing financialization of housing and present some specific developments in the Global South. The concepts outlined in this chapter will provide the basis for the case study in chapter 4 and 5, which links the financialization of housing to inequality outcomes in South Africa.

The financialization of housing can be located in the academic discourse across a variety of disciplines such as heterodox economics, political economy, sociology, geography, and urban studies. Housing markets have important implications for social stability, private wealth distribution and the requirements demanded from welfare states. Access to housing often depends on private housing supply and private housing finances through mortgages. Furthermore, housing markets regulate housing prices, geographical distribution, and the value of real estate as an asset for households and investors (Isaacs, 2018, pp. 311, 326). Relevant regulations, taxation, interest and homeownership rates are therefore significant in the formation of political interests both for homeowners, tenants, as well as groups of society excluded from these markets. (Schwartz & Seabrooke, 2008, p. 237) Furthermore, real estate has become one of the largest, if not the largest, sources of wealth globally. It makes up around one-fifth of ultra-high net worth individuals' portfolios. It, therefore, constitutes a major determining factor behind high levels of national and global wealth inequalities, with the richest 200'000 individuals owning around 3% of the global real estate market in 2014 (United Nations, 2017, p. 3; Haila, 2021, p. 567).

3.1 Marxist perspective and housing: an overview of global dynamics

In order to study the process of financialization with its specific linkages to housing in a theoretically coherent manner, this section will provide the necessary background to the Marxist interpretation of the financialization of housing. Harvey (2012, pp. 27-28, 36) argues that conventional and mainstream economics see real estate and housing often as peripheral elements to more important aspects of the national economy. The secondary role of housing, relative to other processes, can also be observed directly in Marx's theory which generally

tries to abstract from “particularities of distribution”, which includes interests, rents, taxes, wages and profit rates. Marx’s specific theory of rent was only formulated as a response to the land theory of economist Ricardo and is mostly focused on its value in agricultural productive use. Nevertheless, Fine (2019, pp. 8-9) argues that there is still analytical value of Marx’s land value theory by looking at the social reproduction of capital relations based on the value extracted from the land, and how in the current stage of financialized capitalism securitization and bundling of rents lead to the potential for resistance being limited. Harvey (2012, p. 35) further argues that this secondary role of housing relative to macroeconomic determinants is unjustified. The recent GFC has shown that there is a serious need to integrate the dynamics of housing markets and urban processes into the considerations of general systemic processes of capital accumulation.

One example of such a structural linkage can be surplus absorption by creating surplus products through urbanization and housing development. It is hardly surprising that the growth curves of the overall outputs of the capitalist system are matched by ever-increasing urbanization. (Harvey, 2012, pp. 5, 35, 42) This underlines the function of housing to enable capital to circulate further and circumvent potential limits in the primary production process (Aalbers, 2008, p. 149; Aalbers & Christophers, 2014, p. 377). If capital faces a crisis of profitability and limited re-investment, which inhibits its continued circulation between production, sale, re-investment and extraction of surplus in this primary circuit, it will try to enter a secondary circuit of circulation. Housing, besides other financial assets, according to various Marxist authors on this topic, plays a crucial role in the absorption of capital into a secondary circuit with the aim of continued surplus generation through its provision of a surplus product. There is thus a move away from sustaining the infrastructure needs of the manufacturing industry towards providing for the demand of an increasingly influential financial industry (Harvey, 1985, p. 11). This process has been facilitated by increasing levels of financialization as housing, through financial innovations such as securitization, has become an increasingly liquid asset to enable capital to move more frictionlessly into a secondary circuit. (Harvey, 1985, p. 11; Aalbers, 2008, p. 149; Aalbers & Christophers, 2014, p. 379; Harvey, 2012, p. 6; Coq-Huelva, 2013, pp. 3, 5). It therefore increasingly represents an attractive outlet for finance capital due to its global scale, professionalized value calculation and income-generating systems, as well as its “highly standardized institutional framework to collect future income streams” (Aalbers & Fernandez, 2016, p. 4). This process represents a growing

autonomy of capital in its circulation independent from labor and productivity. Mollo, Dourado and Paraná (2022, pp. 956-961) argue that this fictitious form of circulation has limits because if it does not produce benefits in wages and real production it results in an economic crisis due a lack of continued demand in fictitious assets.

A further element to the understanding of the relevance of housing from a Marxist perspective is its ability to extend credit and consumption to continue economic growth and expand effective demand. Fine (2012, p. 57) argues that with the United States at the forefront, consumption has been sustained by an extension of mortgage debt and, therefore, IBC, which both represent a driver and outcome of financialization. As the circulation of capital faces a blockage or crisis, investments in housing developments and mortgage credit extensions are especially effective in increasing the effective demand in the economy to indirectly sustain or increase levels of consumption due to increasing housing asset prices (Aalbers & Christophers, 2014, p. 375). This shows that housing is not merely a “vehicle” of financialization, but it is crucial in absorbing rising capital gains and fuelling the continued expansion of IBC from global finance into new markets and new segments of real estate assets. It represents a dimension of overaccumulation in a system of growing wealth inequalities and allows for a debt-led accumulation regime which further fortifies the increased influence of finance capital globally. It plays an ever more important role to “keep financial markets going, rather than being facilitated” by them (Aalbers, 2017, pp. 1-2). The role of housing markets in stabilizing or destabilising national economies can be illustrated by various crises in the past century (for detailed examples, see Harvey, 2004, pp. 65).

Harvey (2012, p. 36) argues that bank lending of credits for buying land or property with the purpose of extracting rents increases the use of IBC and expands the reach of fictitious circuits of capital. Especially when financial institutions lend to each other, or the central bank to commercial banks, which then lend to speculative financial agents, this can drive “infinite regression of fictions built upon fictions” with increasing ratios of lending to actual deposits. Productive capital combines with fictitious capital circulation through the credit system to both create a supply and demand of housing, to some degree, controlled by capital - a process that opposes the idea of freely functioning liberal markets (Harvey, 2012, pp. 45-46). This process allows the expansion of IBC in the forms of mortgages and credits to households to compensate for stagnating or lower wages, allows the re-investment of productive capital

from over-accumulation and falling profit rates in its primary circuit and allows for speculative increases in the asset values that drives further profit extraction (Powell, 2018, p. 10; Harvey, 2004, pp. 71-72). Furthermore, the building sector based on capitalist incentives is constantly juggling between preserving old social structures of investment and creating new opportunities for investments through destruction of existing structures. The resulting urban landscape is shaped by the drive towards constant reinvestments and capital circulation which often results in “fragmentation, polarization and perpetual upheaval” (Harvey, 2001, pp. 247, 365-368). This process both drives financialization and increases the probability and severity of the potential future financial crisis, as the GFC has shown and will be discussed later in this chapter.

Another crucial element to the Marxist perspective on the issue of housing in the context of financialization is the social reproduction of class and the respective implications of inequality, which will be central to the analysis of this minor dissertation. Harvey (2012, p. 66) argues that “the reproduction of capital passes through processes of urbanization in myriad ways. But the urbanization of capital presupposes the capacity of capitalist class powers to dominate the urban process”. The reproduction of class related to housing is not only determined by influence over state policy but partially determines various central social elements such as lifestyles, political values, perception of the environment and more. Furthermore, as Aalbers and Christophers (2014, p. 383) argue, the reproduction of uneven social relations through and as a result of housing is clearly broader than only class, which will be illustrated by the empirical case study later on. There are various factors, such as race/ethnicity and gender, at the intersection of economic class that produce differential outcomes for inequality in the context of housing. While these differences and intersections are not exclusive to the study of housing or financialization, the implications of the GFC in 2008 have shown their significance relative to housing. The other specificity of social reproduction in the context of housing is the generational concentration and transfer of wealth. In scenarios of housing asset inflations, older generations with high concentrations of homeownership consequently profit more from price increases. As housing wealth is concentrated in those generations and therefore increasing relative wealth inequalities, these inequalities are not negated by the death of older generations but transferred into new generations reproducing uneven class, race and gender relations (Aalbers & Christophers, 2014, p. 383). This illustrated the fundamental linkages of housing to an understanding of a Marxist “class-based structure of society and the

fundamentally uneven development of capitalism” (Aalbers, 2016, p. 142). It also shows the shortcomings of traditional economics which assume market equilibriums and growing efficiencies while ignoring these structural processes of surplus distribution towards securitization, secondary circuits, and fictitious capital in the housing market (Gotham, 2009, p. 368).

3.2 Housing financialization trends

The previous section has provided the necessary theoretical Marxist framework to understand the linkages between capital accumulation, IBC, fictitious capital expansion, social reproduction of inequalities and housing. Following this more abstract conceptualization, it will be helpful to present some global empirical evidence of trends associated with the financialization of housing within this framework. Some of the indicators outlined in the section below represent recurring patterns found in the academic literature studying the financialization of housing processes (Byrne & Norris, 2022, p. 184). These include a liberal housing finance system that permits high levels of mortgage debt, the exposure of real estate markets to global capital and the resulting volatilities (Schwartz & Seabrooke, 2008, p. 255), the spread of mortgage securitization and "financial rationales" into the real estate market (Pereira, 2017, p. 1), the rise of corporate landlords and Real Estate Investment Trusts (REITs) (Rutland, 2010; Waldron, 2018; Migozzi, 2019, p. 9), the rise of mortgage securitization (Gotham, 2009), finance and rental housing, (Fields and Uffer, 2016 ; Wainwright and Manville, 2017), as well as new patterns of wealth accumulation that are often linked to speculative investments and preferable conditions for existing asset-owners (Andreoni, Robb, & van Huellen, 2021, p. 216). These developments are often linked to outcomes such as higher levels of economic vulnerability and worsening existing patterns of wealth inequalities (Schwartz & Seabrooke, 2008, pp. 255-257).

While there are variegated national ways to what extent and in which combination such indicators are present (Aalbers, 2017, p. 3), Powell (2018, p. 7) argues that there is a general trend of integration of mortgage and housing finance into global financial markets. This represents the move of capital towards a secondary circuit, especially in the case of mortgages, through increasingly liquid assets and financial innovation, as outlined earlier in this chapter (Coq-Huelva, 2013, p. 5). Rognlie (2015, pp. 1, 50-51) shows that investments in real estate have increased their relative share of total assets since the 1970s and are, therefore, increasingly relevant to global economy growth. An increasingly financialized global economy

that over-accumulates capital through real estate and other assets in a secondary circuit requires a channel that allows for continued circulation of capital at scale. This is what Aalbers and Fernandez (2016, pp. 5-7) describe as a "wall of money" that originates from institutional capital investors (pension funds, private investors), emerging economy trade surpluses, and profits in tax havens and are looking at real estate as the outlet for this increasing investment demand (Aalbers, 2017, p. 4). Section 3.3 will provide an analysis of the extent of such dynamics present in economies and the housing market in the Global South and will outline the concept of subordinate financialization relevant to this discourse (Pereira, 2017, p. 6).

a. Liquifying housing assets

Another core avenue that allows the financialization of housing is financial innovation that enables capital to switch more easily into a secondary circuit. One of the critical innovations regarding the financialization of real estate markets was the widespread use of securitization, whereby existing mortgage lenders can "re-sell their portfolios in a secondary mortgage market" (Aalbers, 2017, p. 5). This is a process that started in the 1980s and was accompanied by the creation of facilitating institutions (Harvey, 2012, p. 13). From the perspective of real estate investors, this overcomes some of the limitations of residential assets compared to, for example, purely liquid foreign currency investments. Previously the tradability and bundling of real estate assets were limited by the mortgage lender's influence, its "spatial fixity, lack of liquidity, long turnover time, socially protective regulations and non-economic criteria of valuation, among other conditions" (Pereira, 2017, p. 5). This illustrates how there is a contradiction between illiquid and spatially fixed real estate and capital which is "abstract, nomadic, placeless", (Gotham, 2009, p. 359). Mobile capital therefore tries to overcome these limitations of immobility of the housing assets by trading the mortgages in a secondary market, proxy layers are added, which make the secured mortgage conveniently tradable internationally on the stock market.

It further enabled the spreading of risk across multiple real estate assets in various categories and locations into collateralized debt obligations (Harvey, 2012, pp. 13, 47). This consequently creates an environment where the significance of debt-based property owner's agency can be compromised, and the gained liquidity allows for more speculative and specific asset-independent real estate investments by financial actors. From the perspective of a mortgage lender with residential interests, this represents a passive, often unwilling integration and

exposure to the dynamics of global financial markets (Haila, 2021, pp. 564, 567; Rolnik, 2013). This was a crucial avenue for the spread of IBC and fictitious capital into a secondary, often more profitable circuit of capital accumulation, which distances the debt and respective potential future return from the original mortgage condition and enables speculation and concentration of ownership due to the abolishment of previous liquidity limitations (Engelen & Musterd, 2010, pp. 706-707). Gotham (2009, p. 366) argues that this process of turning illiquid assets and “converting opaque and illiquid assets into liquid and transparent securities” has often disruptive and destabilizing outcomes for housing markets and the financial system at large. Section 3.3 will show that some aspects of this can be found in the Global South such as a general approximation trend towards Anglo-Saxon mortgage securities market models but both the proliferation of studies on the topic and the broad spread of mortgage-backed securities remain limited in the Global South.

The international nature of this practice also reduced the role of local actors and knowledge, which were replaced by standardized risk assessment tools that allow financial managers to manage speculative real estate investments across multiple locations and asset classes with fewer transaction costs previously imposed by the limitations to their liquidity discussed above (Pereira, 2017, p. 5). Moreover, there has been a growing presence of institutional investors in the rental market, especially in the Global North, where real estate investment trusts (REITs) and other corporate landlords look at subsidized and low-income housing as the new frontier. The REIT model originated in the US market in the 1960s and is the current role model for many other countries, including the South African commercial property and increasingly rental property markets. REITs enabled innovative investments that divided real estate assets into smaller fragments to be pooled up and sold as partial shares in the multi-unit rental housing category. (Haila, 2021, p. 1063) This allows investors to trade a diversified portfolio of stocks rather than illiquid housing assets to realize attractive returns from real estate market. From the perspective of private investors, it allows for smaller scale investments and easier risk spreading. REITs generally consist of a diverse portfolio of residential, commercial, retail, and industrial properties (Nurick, Boyle, Allen, Morris, & Potgieter, 2018, p. 63). In South Africa their activity has been mostly linked to commercial and retail property but with an increasing role in the residential market which will be shown in Section 4.4 e.

While real estate was always a capital-intensive asset class, financial innovation allowed for an acceleration of the integration into global capital markets and the promotion of financial rationales in the sector and consequently transformed the functioning of mortgage markets (Fields & Uffer, 2014, p. 2). It changed the "role of mortgage markets from facilitating borrowers' access to credit to facilitating processes of global investment" and fictitious capital (Aalbers, 2008, p. 148). This generally has made securitization source of political debate where the contradictions between capital and housing are exposed and housing markets become a key element to monitor and regulate regarding potential future crises (Gotham, 2009, p. 367). In the South African case the securitization of housing is still a phenomenon with limited scale but an upward trajectory which will be shown in Section 4.4 b.

b. Promoting homeownership

Harvey (2012, p. 48) argues that housing investments were effective in increasing aggregate demand, and they represented an attractive avenue to compensate working classes with stagnant wages and raise consumption through asset-based wealth and maintain levels of consumption. The global trends show that homeownership numbers have risen in the past half-century (Marais & Cloete, 2015, pp. 261-262). Especially in the US and the UK, the promotion of homeownership has represented a significant policy target for conservative political parties (Watson, 2010, pp. 420, 424). Homeownership narratives are often associated with individual financial security and economic stability and are supported by many policy regimes worldwide (Forrest & Hirayama, 2015, pp. 235, 241). Concrete examples are Margret Thatcher's "Right to Buy" in the UK and George W. Bush's desired "Ownership society" as part of the US housing policy regime, which heavily subsidized broad-based private homeownership (Ansell, 2019, p. 8). Homeownership is broadly seen as integral to the model of the "American dream" and the respective cultural values and rose from around 40 per cent of the US population in 1940 to almost 70 per cent at its peak in 2004. After the 2nd World War, government-sponsored housing construction and the respective increase in homeownership helped to strengthen the US economy, boost public demand and housing asset value increases, and therefore consumption levels (Harvey, 2012, p. 50).

The policy-induced promotion of homeownership and expansion of mortgage credits both in existing and new segments of society implies an expansion of IBC and fictitious capital in previously less financialized areas of the economy (Rolnik, 2013, p. 1059). The favourable view

of private ownership and the creation of asset owners with a stake in booming house prices led to a market-driven housing policy approach most prominently in the US, UK, Denmark, Australia, and Japan while also observable in many other areas of the world. The trend is underpinned by increasing mortgage debts to GDP ratios across those regions (Rolnik, 2013, p. 1059). Policies with the aim of homeownership promotion often use the privatization of publicly owned houses, subsidizing mortgage credits, and liberalizations of the mortgage market as major avenues to promote homeownership. Privatization of publicly owned real estate and land reduces government spending and maintenance costs as well as creating new asset owners in low-income groups of society to reduce their public welfare dependence further. (Rolnik, 2013, p. 1061) This corresponds to a direct transfer of public responsibilities to market dynamics through private ownership of real estate and the promotion of asset-based welfare (Fine, 2012, p. 59; Fine & Saad-Filho, 2016¹, p. 2). This can be empirically illustrated by the developments in Central and Eastern Europe in the 1990s, where housing became increasingly privatized due to pro-market policy agendas. As part of a strategy to reduce public spending and replace public social housing provision with private markets, many housing complexes were transferred away from governmental, often municipal, ownership. This reduction in welfare spending and rent subsidy programs was paralleled with the liberalization and internationalization of financial markets (Rolnik, 2013, p. 1059). In South Africa there has been a similar process where the government privatized part of its public housing stock during the 1990s which will be discussed in the sections 4.2 a and 4.4 a

Beyond the homeownership policies, social and affordable housing policies have been similarly exposed to processes of financialization. Byrne and Norris (2022, pp. 183-185, 191) argue as part of an empirical study of the Irish social housing and rental market that the shift in social housing policies illustrate an important intensification of the financialization of housing based partly on neoliberal policy decisions. Many of these policies were linked to mortgage market deregulations and creating private supply of affordable housing by involving private financial actors and the resulting in-debtiness of low-income groups of society. These factors illustrate how the financialization of housing can be linked to the commodification and financial inclusion of new actors, new homeowners or social housing residents, and the role of both the state and financial actors in promoting such a shift in policy and respective involvement.

c. Causing GFC 2008

Before the crisis in 2008, Harvey (2012, p. 11) argues, real estate was an "important stabilizer of the [US] economy", especially since the economic crisis in the 1990s. Through a construction boom and historically low mortgage interest rates and the corresponding property market inflation, consumption and private demand were kept at high levels. The stabilizing effects of the US property boom were felt at a global level and fuelled US lending worldwide to sustain consumption. In the two decades leading up to the GFC in 2008, banks heavily used relatively "secure" mortgage-backed securities (MBS), which pooled together multiple real estate of different quality levels and enabled through the previously discussed process of securitization and enabled their liquid tradability as speculative investments. As argued earlier, this represented a rapid expansion of fictitious forms of capital in the global property market and enabled a period of relatively stable low-interest rates and low inflation in a booming housing market in the Global North. In the two decades prior to the GFC in 2008, low inflation and booming property prices based on increasingly privatized housing provisions seemed like the perfect mix for asset-based welfare, which refers to policies promoting broad ownership of assets to compensate for wage-based returns in the economies of the Global North. This expansion of fictitious capital in the form of housing demand and mortgage-backed securities was only partially invested in housing production or other circuits of capital. From a Marxist perspective, this increase in fictitious speculative capital circulation without the production of value can only be sustained for a limited time and scale. (Harvey, 2012, p. 47) Consequently, the expansion of speculative real estate investments on the back of low-quality assets and the resulting increasing exposure of individuals to global financial markets soon culminated in one of the most significant global economic recessions in recent decades, where 52 out of 60 countries reporting to the IMF in 2009 registered a decline in GDP (Tooze, 2018, p. 171).

The GFC illustrates how fictitious capital returns became increasingly independent of the original debt condition of the mortgages that were grouped together and how an ever-increasing growth of asset prices without value creation is a speculative bubble (Harvey, 2012, p. 47). The pooling, bundling, and real estate nature of such assets further reduced the perceived risk due to its broad spread by including a multitude of debt elements within one bundle which is enabled by financial product innovation. Due to the lack of transparency in these asset bundles, the inclusion of "subprime mortgages" and low-quality assets created a

poorly secured system that ultimately collapsed (Karwowski, 2019, p. 5; Rolnik, 2013, p. 1062; Marais & Cloete, 2015, p. 262). While MBS bundles were abundant in the United States, the connections of the global capital market internationalized the impact of a national real estate crisis (Tooze, 2018, pp. 60-61; Aalbers, 2008, p. 162). The 2008 Financial Crisis, therefore, empirically illustrates the financialization of real estate markets and how they have become a significant economic variable due to their scale and connection to global capital. It has also led to various financial-political rescue missions of big financial institutions, which underline their relative perceived importance in the current economic system as these market interventions represented strong state involvement in saving the financial sector. How a national subprime mortgage crisis triggered a domino chain of global economic consequences and political interventions further illustrates the complexity and interconnectedness of the current financialized global economy. (Fine & Saad-Filho, 2016², pp. 151-152) One of the direct consequences of this crisis has been the decrease in homeownership rates globally, besides the many other economic and social effects (Marais & Cloete, 2015, p. 263). This, therefore, illustrates how increasing the financialization of housing challenges the ability of markets to provide adequate housing for all and potentially fuels inequalities in housing access and the security of existing ownership (Rolnik, 2013, p. 1058).

3.3 Financialization of housing in the Global South

This section introduces some of the characteristics of financialization and housing in countries of the Global South to expand the theoretical basis for the case study of South Africa in the next chapter. The specific contextualization of the Global South seems necessary as most of the scholarship, both on financialization generally and the specific sub-thematic of housing, historically focused on the regions of Europe, North America, and Australia. Aalbers, Rolnik and Krijnen (2020, pp. 481-482) argue that this binary categorization of Global North/Global South and the resulting exclusion regarding housing financialization only holds to some extent as financialization processes are not always regionally limited. Aalbers (2020, p. 283), Katz and Lenhardt (2016, p. 926) even argue that the housing markets in the Global South constitute a new frontier for housing financialization and that its impact on the social and urban structures in cities of the Global South is often overlooked by research. The reasons for this delayed academic focus can partially be linked to a relatively subordinate position of these regions in the global economy and are instead often studied "with a focus on informal housing, market

dysfunctionality, and access to land" (Migozzi, 2019, pp. 1-2). This often leaves out an analysis of potential similarities in financialization processes studied and observed in the Global North.

To expand further on this general aspect of the subordinate positioning in the context of financialization within the global economy of countries in the Global South, we must discuss the implications stemming from the global economic hierarchy. Powell (2018, p. 5) defines such a relative positioning as financialization being shaped by "imperial relations and a peripheral location both in the world market and in relation to world money". Many economies in the Global South find themselves in such a "subordinate position" in both global production networks, through cheap labour and natural resources, and financial markets, due to their trade and foreign currency dependencies (Bonizzi, Kaltenbrunner, & Powell, 2019, pp. 1, 10). This phenomenon is being summarised as IFS to describe the particular experience of financialization in countries of the Global South. Bonizzi, Kaltenbrunner and Powell (2022, pp. 652-653) further argue that in the current stage of financialized capitalism the Global South experiences an uneven reproduction of capital relations in a global hierarchy that goes beyond the dynamics of a single nation-state. While this explanation resembles most closely a Marxist perspective, Alami et. al. (2022, pp. 4, 20) argue that the study of IFS in the Global South benefits from a synthesis of the diverse heterodox traditions which include Marxist, post-Keynesian and dependency theorist perspectives. Synthesizing these traditions allows researchers to look at the present process of accumulation as a historically enduring process which links past colonial and imperial forms of subordination through the process of internationalization, and the creation of a world market and global production networks to the current IFS. Alami et al. (2022, p. 20) provide an overview of the research axes which should guide the analysis of the South African case study in the context of IFS. These include: a historical analysis of the financial sector and its relations, relations between finance and productive sectors, the power constituting role of money and monetary relations, governmental policy, the actions of non-governmental actors, and geospatial relations of IFS. This illustrates the approach chosen to show this broad range of interlinked factors in the case of the South African housing market with its features of historic formation of capital and financial industry, the changing nature of NFC investments, the continued spatial inequalities reinforced by capital accumulation and the reproduction social class relations (sections 4.3-5 of this paper).

From a post-Keynesian perspective, for Global South markets their relatively lower position in currency hierarchies and their monetary policies often allow high-interest rates on capital to sustain constant short-term foreign investment inflows to compensate for their trade deficit. These policies are, in many cases, targeted at reducing inflation and fiscal restraints (Isaacs, 2014, p. 16; Karwowski, 2018, p. 4). The consequences of these high-interest rates to attract capital further limit the ability for domestic investments and the growth of the productive economy (Karwowski, 2019, p. 12). This constraint and the resulting policy choices expose countries of the Global South to higher levels of exchange rate volatilities, and this is even further exacerbated by financialization-induced integration of the economy into global capital markets. As a consequence, regardless of whether economic turmoil is of national or international origin, the "subordinate" position of the currency would trigger a retreat toward the dollar and other Global North-based assets. Advancing financialization in the Global South, therefore, magnifies the impact of economic booms and crises and exposes previously independent housing markets to these dynamics (Pereira, 2017, p. 14).

Marxist theory offers various insights which help explain such processes of IFS. One aspect is highlighted by Harvey (2004, p. 64) and concerns spatio-temporal fixes due to overaccumulation within one economic region. Over accumulation within one territorial system might produce a surplus of both capital and labour which can either be solved by temporal investments, for example, education or infrastructure, or it can be spatially displaced into other countries for further circulation or any combination of these. Overaccumulations in the productive and financial economy of the Global North could therefore be spatially displaced into regions of the Global South to allow for further capital circulation. In the context of housing, real estate in the Global South could serve as an attractive new asset class and market to allow for such a spatio-temporal fix. Another aspect highlighted by Fine (2013, pp. 48, 56) concerns the lack of attention to regions outside the Global North and seeing the global economy as a system of uneven economic relations. This exclusion of a broader geographical perspective on financialization processes overlooks key trends determining global inequalities regarding the benefactors of this structural shift in the economy under financialization. He argues that the surplus redistribution under financialization is organized internationally and generally benefits the Global North, especially with the leading financial markets in the US and UK, which own most of the capital, host the majority of financial corporations and control the dominant reserve currencies. By incorporating more and more

existing and new credit relations in the Global South into the logic of Global North-controlled fictitious capital, financialization further exacerbates these global inequalities.

Alami et al. (2022, p. 10) argue that in a Marxist analysis of IFS the uneven class relations stemming from an imperial and colonial history of the capitalist system must be at the center of its theory. This can be seen as a reproduction of uneven economic and class relations due to their relative historic and productive value chain positioning and can be related to the uneven outcomes and imperial nature of the primitive accumulation outlined earlier (Harvey, 2004, p. 73). Furthermore, the transfer of surplus value generated by increasingly internationalized production networks has triggered a geographical relocation of value-added in production in the Global South to the capitalist core in the Global North. The involvement of financial actors and the use of US dollar denominated assets has furthermore increased the governance role and relative power of finance in a globalized economy. Subordinate productive relations shape the extraction of surplus while subordinate financial positions “ensures its safe extraction, transfer, storage as financial wealth” (Bonizzi, Kaltenbrunner, & Powell, 2022, pp. 651-655). The dependence on these global productive and financial networks locks in countries at the periphery of global capitalism to “cost-competitive exports and capital-intensive extractive industries” which “limits wage-powered consumer demand” and requires international financial markets for domestic investments (Bonizzi, Kaltenbrunner, & Powell, 2022, p. 668).

There have been a variety of studies focusing on some of the negative implications stemming from the financially subordinate positions of countries of the Global South (Bortz & Kaltenbrunner, 2017; Lavinias, 2018; Storm, 2018). Isaacs and Kaltenbrunner (2018, pp. 439, 451) argue that financialization in the Global South, while variegated for specific actors depending on international market integration, has generally produced “new forms of external vulnerabilities and instability”, which can be observed through an analysis of capital inflows and housing prices. Other monetary dangers stemming from the financial integration of the Global South include a rapid credit expansion, capital outflows, sudden exchange rate fluctuations, or growing short term international debt which all contribute to a higher sensitivity towards economic crisis which reinforces “losses exacerbating the downturn and capital outflows” (Isaacs, 2018, pp. 96-99, 125). Within the South African context, these dynamics are represented in the country’s active pursuit of a globalized economy and its rapid integration

into international financial markets, all driven by its macro-economic policies. Simultaneously, the primary and secondary sectors of the economy are shrinking compared to its financial sector, while the nation's indebtedness to foreign lenders is rising. A detailed exploration of these dynamics will be presented in section 4.3.

For the specific case of the African continent, there are relatively few accounts of political-economic studies, with the relevant exception of South Africa (Karwowski, Fine, & Ashman, 2018, p. 1). For other emerging market economies such as China, Turkey and Brazil, there has been an increase in analysed trends such as the developments in mortgage debt and other financialization indicators after the Global Financial Crisis (Aalbers & Fernandez, 2016, p. 9; Erol, 2019, p. 726). It has also been argued that the financialization of housing is facilitating an approximation of various characteristics originating in the Anglo-Saxon real estate models to other countries globally, including the Global South (Pereira, 2017, p. 6). The role of investment flows in the aftermath of the Global Financial Crisis is being highlighted as a pivotal contributor to this development which was often enabled by loose monetary policies in countries of the Global South (Akyüz, 2018, pp. 1-2; Karwowski, 2018, p. 5). This has been the case for the liberalization of short-term capital inflows into the South African economy motivated by high interest rates and its liberal monetary policy to attract foreign investments. Such investments, however, have not translated in increased economic growth or productive investments as section 4.3 b will show.

While many of the particularities of housing financialization in the Global South stem from general differences in a subordinate positioning in global productive, financial and monetary system, there are also some specific characteristics of housing that need to be highlighted. One of the crucial characteristics in many Global South countries is the existence of large-scale informal settlements. Rolnik (2013, p. 1061) argues that in many countries of the Global South, rapid urbanization meant an influx from rural areas of the country to its growing metropolitan areas. These mostly low-income households would rely on self-built informal settlements to avoid the pricey formal housing market, and in many cases, colonial and racist policies prevented them from counting as legitimate citizens. In many places, this has led to massive informal settlements with low levels of infrastructure and services. These developments were observable on a big scale across Latin America, Asia and Africa. This can be clearly linked to the Marxist perspectives on the connection between urbanization and

capitalism outlined at the beginning of this chapter. Neoliberal policies to influence the housing market and tackle issues of poverty have, therefore, often interfered with traditional informal housing delivery mechanisms in these countries. Governments have tried to formalize the housing sector to unlock the value of the sometimes valuable and central land used for informal settlements. This naturally stood in conflict with the existing low-income communities in these settlements (Rolnik, 2013, p. 1061). Furthermore, Powell (2018, p. 8) argues that some of these high-level attempts at informal settlement upgrading are aimed at introducing mortgage markets and global capital into new markets. In the South African case, as an example, the Department of Human Settlements (DHS) estimates the number of informal settlements to be above 2200 nationally, which shows the sheer relevance of this phenomenon to the overall housing market (Tomlinson, 2015, p. 2). The existence of informal secondary housing sectors also challenges the narratives around housing financialization conceived in the Global North. "Commodification of social rights, deregulation and privatization" often did not apply to inhabitants of these settlements (Pereira, 2017, p. 2), as these informal settlements existed outside the direct "circuits of banks, financial institutions, and often also planning regulations". Financialization directly links these population groups to a formal credit system and, therefore, would necessarily be accompanied by the abandonment of previous informal systems. (Aalbers, Rolnik, & Krijnen, 2020, p. 483)

This chapter has provided a Marxist perspective on some of the aspects of housing financialization and discussed a selection of related empirical developments such as liquid housing assets, the promotion of homeownership and mortgage finance and the exemplary nature of the GFC. The last part has provided an overview of some of the particularities of IFS and the financialization of housing in the Global South. Together with the theoretical framework of the introduction, this should serve as a basis for the discussion of the specific case study of housing financialization, inequality trajectories and housing access in South Africa in the coming chapter.

4. Financialization of housing in South Africa

As mentioned in the introduction, South Africa represents a highly interesting case both for the study of financialization dynamics due to its highly developed financial sector as well as its broad commitment to social welfare policies, a legacy from its history of racial segregation

and rising levels of inequalities (Seekings, 2007, p. 1). This chapter will first give some context to the chosen case study, then gradually build towards an understanding of the financialization characteristics present in the South African context in section 4.3. It will work towards a mapping of the relevant characteristics of financialization in general and financialization of housing specifically, as well as the relevant social welfare policy around housing in South Africa. Throughout the chapter, the implications regarding income and wealth inequality will be discussed in the context of financialization processes discussed in each section. The model overall serves as an overview for the study of reciprocal relations between processes and the discussion of inequality outcomes and will provide a basis for future research to explore specific connections or additions to the observed patterns.

As outlined in the introduction of this research, the selection of indicators relevant to the study of financialization follows a Marxist political economy perspective. The chosen theoretical tradition informs the selection and provides an overarching methodology which focuses on the expansion of IBC in the economy to interpret certain developments in the case study of the housing market in South Africa and the implications of the financialization of housing for inequality outcomes.

4.1. Historical, political and economic context

This section will provide the necessary contextual information to understand some of South Africa's particularities. To achieve this, it will provide some historical political-economic characteristics, introduce the background to the issue of inequality for further discussion throughout the chapter and give an overview of public welfare provision in South Africa.

a. Relevant political-economic history

Current developments in housing financialization are significantly dependent on the historical political and economic foundation upon which they develop. When trying to consolidate the characteristics of financialization relevant to the South African housing market, its historical context is crucial to the in-depth understanding of this phenomenon. This goes in line with a historical perspective on political-economic processes unfolding in a given system in the tradition of Marxism outlined earlier. When discussing the relevance of international finance in South Africa, its influence dates way back into its history and is closely linked to its colonial past. As the local gold industry was heavily dependent on international, mainly English, capital

imports to finance gold mining, the South African economy created such linkages early on in its recent history. Harvey (2004, p. 67) argues that the flows of capital from Britain to South Africa in the 19th century were driven by overaccumulation of labour and capital surpluses in the domestic economy, which used South Africa, amongst other colonies, as an outlet to continue capital circulation. Growth in the mining sector was a crucial development with linkages into the modern era. Under the Apartheid regime, the capital from mining diversified into new sectors of the economy. Especially Afrikaner capital in the 1970s heavily benefited from state support and a fostered publicly sponsored expansion of the South African Mineral-Energy Complex (MEC), which was one of the key determinants of the economic performance and policy considerations overall (Fine & Rustomjee, 1996, p. 71). Externally induced sanctions against the Apartheid government contained national capital locally within the South African borders and created high levels of concentrated ownership linked to the MEC, which diversified in other sectors of the economy, especially the financial sector (Karwowski, Fine, & Ashman, 2018, p. 383). South Africa's economic performance was highly dependent on a core set of sectors and the public and private corporations which often were part directly or indirectly of the MEC. The potential trajectories for the post-Apartheid economy are therefore crucially linked to the historical importance and the restructuring of the MEC, also due to its integration into global production networks during this period (Karwowski, Fine, & Ashman, 2018, pp. 383-384). Isaacs (2018, p. 21) argues that the MEC heavily shaped the economic structures of South Africa due to its reliance of mineral exports and the related up- and downstream manufacturing industries. This is also represented by the respective, mostly domestic monetary policies which aimed at restructuring the MEC and, Isaacs argues, have been crucial in enabling the financialization processes within the South African economy (Isaacs, 2018, p. 173).

The analytical utility of the MEC concept continues to be a source of academic debate, the discussion of which goes beyond the scope of this minor dissertation (see *Transformation: Critical Perspectives on Southern Africa*, Issue 71, 2010). The high concentration of ownership and dominance of domestic capital at the beginning of the democratic transition were ideal conditions for rapid integration within global financial markets and the adoption of financialization processes (Karwowski, Fine, & Ashman, 2018, p. 383; 2021, p. 6). Furthermore, the MEC represented the close relations between the mineral-centric and capital-intensive expansion of the South African economy with the parallel growth and involvement of the

financial sector. These linkages between MEC and finance manifested themselves through the ownership of mining and industrial companies by financial institutions, capital in mining and industry owned financial intuitions and the facilitating role of finance in acquiring subsidiaries (Isaacs, 2018, pp. 21, 149).

The first democratic election in 1994 was shaped by a democratic coalition between the African National Congress (ANC), the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU). This partnership seemed promising due to the broad range of actors it represented across various civil society movements, labour unions and political parties on top of broad-based international solidarity. This alliance aimed to implement pro-poor structural reforms by adopting a Reconstruction and Development Programme (RDP), a macroeconomic policy package which aimed to address South Africa's massive social problems stemming from the Apartheid period by strengthening its economic performance and growth. It included various redistributive elements of macroeconomic policies around tax regulations, fiscal spending, trade liberalization and plans for infrastructure creation. (Karwowski, Fine, & Ashman, 2018, p. 384) Despite the promising democratic features of this transition, it is argued that the power imbalance between highly concentrated domestic capital, especially within the MEC directly and indirectly, and other sections of the economy, as well as the newly prominent political voices, significantly weakened the ability of this transition to achieve its economic aims. It is argued that this is closely linked to financialization as the distribution of power towards the financial industry and the internationalization of the economy and integration to global capital markets limited and undermined the progress and feasibility of RDP policies (Andreoni, Robb, & van Huellen, 2021, pp. 222, 231).

Besides the challenges of wealth and power distribution within the local economy, the democratic coalition also faced a particular international political environment. At the time of transition, the Soviet Union lost most of its influence, and neoliberal democratic political ideas achieved broad international significance. This international tendency to embrace neoliberal models has also fundamentally influenced the trajectory of post-Apartheid South Africa (Bond, 2005, pp. 15-17). Bernstein (2010, p. 182) argues that the ANC implemented very liberal economic policies since the beginning, which included the "removal of capital controls, trade liberalisation, concern or obsession with global competitiveness," besides various monetary

stabilizing and orthodox fiscal policies. Karwowski, Fine and Ashman (2018, pp. 384-386) define six factors which they argue have caused the tendency towards the neoliberal model of economic policy and state. First, the MEC is the critical element to any potential ambition for economic restructuring due to its dominant role in a national economy heavily reliant on a few of those sectors and its broad-based linkages across other sectors, especially finance. Second, the opening to international markets enabled the integration of the MEC and its conglomerates into global production and finance networks. Third, the late transition of South Africa allowed it to leapfrog many neoliberal phases at the time of transition. Fourth, the South African economy and restructuring of the MEC have faced the “four lows”, which meant low levels of investments, productivity, employment and wages. Five, these past four developments show how South Africa adopted many of the typical symptoms of neoliberalism after the end of the Apartheid regime. Finally, these factors were defined by an increasing influence of the South African Treasury and the Presidency, which seemed to prioritize financial and monetary objectives, and therefore enabled the financial industry to thrive. Ultimately, Fine and Saad-Filho (2016¹, p. 10) argue that the tripartite alliance became increasingly ineffective after the democratic transition as the economy was restructured through the spread of financialization processes. They further argue that neoliberal policy choices and ideologies, in the case of South Africa, undermined the influential labour movements in the years after the democratic transition.

Hickel (2021, p. 57) argues that while the political revolution empowered the Black majority through broad-based democratic participation, the fundamental restructuring of the economy through respective policies was kept shielded from the transition. He further argues that transforming the South African Reserve Bank (SARB) to work independently under the guiding principles of price stability might not have been as apolitical as it was portrayed. From a Marxist perspective, this could even represent a reproduction of uneven class relations in the interest of the capitalist class. The neoliberal economic model furthermore prioritized the interests of a growing new Black capitalist elite. These developments and the growing dissatisfaction of parts of the population with the inability of the government to implement the demands initially set out by the tripartite alliance have led to a weakening of this coalition which can be observed empirically with the rise of breakaway parties such as the Economic Freedom Fighters (EFF) (Ashman, Fine, & Karwowski, 2021, pp. 3, 16). Despite a consumption-led growth period in the mid-2000s, this favourable period was cut short by the GFC. The

economy continued to depend heavily on export and commodity prices which can be understood as a legacy of the Apartheid system of industry and the MEC. (Newman, 2014, p. 15)

South Africa is a country that continues to be heavily influenced by the legacy of Apartheid and the specific social-political and political-economic conditions which originated from it. The capital distribution under colonial and later Apartheid rule has important implications for the ability to achieve structural transformation. The ANC government's ambitions have been confronted with a historical legacy of the highly unequal and segregated social system, a system of MEC-linked capital and influence, and a concentration of land ownership and agriculture amongst white elites. Nevertheless, policy choices in the democratic period have mainly supported a transition to a neoliberal market model and have instead promoted a growing financial industry and a new Black capitalist elite instead of broad economic uplift and reduction in inequalities. While this double view of the transition as political democratic on the one side, and global and neoliberal on the other, holds much explanatory value, von Holdt (2003, p. 3) argues there is also a need to see the third element of this transition, i.e. it initiated a profound social transformation towards a post-colonial society. Nevertheless, Seekings and Natrass (2015, p. 21) argue that South Africa represents an "uneasy combination of social democratic and neoliberal elements". While some policies are aimed at governmental provision of social welfare and implementation of social protection around minimum wages and employment conditions, the high levels of inequality and lack of essential services for large parts of the population can only be legitimized by highly liberal regimes and stand in opposition with democratic ideals of egalitarianism. (Künzler & Nollert, 2017, p. 3)

In parallel to the macroeconomic policies adopted under the RDP, there has also been an active discourse on housing delivery as part of the democratic transition and an emphasis on mitigation of poverty and addressing Apartheid inequalities. Through the National Housing Forum (NHF), a multi-party organization established in 1992, a non-racial housing policy was debated and later implemented. The policy framework that arose (Department of Housing, 1994) defined the goals of housing delivery to low-income households and established the baseline targets, both annually and in total, for bridging the housing gap in South Africa. (Tomlinson, 2015, pp. 1-2)

b. Income inequality and unemployment

As set out by the research question, this minor dissertation aims to discuss the relevance of financialization processes and, specifically, the financialization of housing relative to inequality trajectories in South Africa. This section will provide some general background on the existing income and wealth inequalities in the country and outline why South Africa is particularly relevant as a case study discussing the linkage between financialization and inequality. Beyond the impact of financialization on inequality, there has already been a historical presence of extensive inequalities due to state and social structures under colonialism and the racialized state of Apartheid. The country is often described as the “most unequal society in the world”, with similar income and wealth differences only experienced in Brazil (World Bank 2018b in Ashman, Fine, & Karwowski, 2021, p. 14), with extreme levels of wealth concentration with the top 1% owning a higher share of wealth than the bottom 99% (Chatterjee, Czajka, & Gethin, 2021, p. 16). While under the highly racially divided system of Apartheid, these inequalities were a product of intentional state design, the post-Apartheid period seems marked by significant shortcomings in its aims and ability to reduce these inequalities. Newman (2014, p. 24) even argues that the observable income inequality levels are currently higher than during the Apartheid period. While increases at the bottom and the top of the income percentiles increased, the top 10% far outpaced the rest of the income segments. This is in line with Fine’s (2012, p. 57) prediction of how neoliberalism underpinned by financialization might represent a strategy of redistribution of capital towards “a class of rentiers”, which will be discussed later in this chapter.

Two critical factors causing income inequalities in South Africa are differences in wages and unemployment. Wages directly determine divergence in household incomes and are therefore responsible for the majority share of income inequality. Quantitatively more than 60% of income inequality is determined by variation in wages (Leibbrandt, Finn, & Woolard, 2012, pp. 32-33; Newman, 2014, p. 29). Especially the divergence of wages within the same economic sector has been fuelling the recent increases in inequalities overall (Finn, 2015, p. 59). Unemployment is the other major factor responsible for the trajectories of income inequalities (Newman, 2014, p. 32). With rising levels of unemployment, the lower-income segments of society are mostly affected by the material consequences of such trends. Beyond the distinction between employed and unemployed, the South African case requires a more nuanced distinction as employment could be formal or informal, from which the latter has

significant implications for inequality levels (Bhorat, Naidoo, & Pillay, 2016). The other highly significant nuance when talking about both employment and income inequality is the racial dimension. When looking at unemployment rates across different racial groups in South Africa, one can identify significant differences, which the illustration below shows.

Figure 1: Unemployment rate for different racial groups (in percentage)

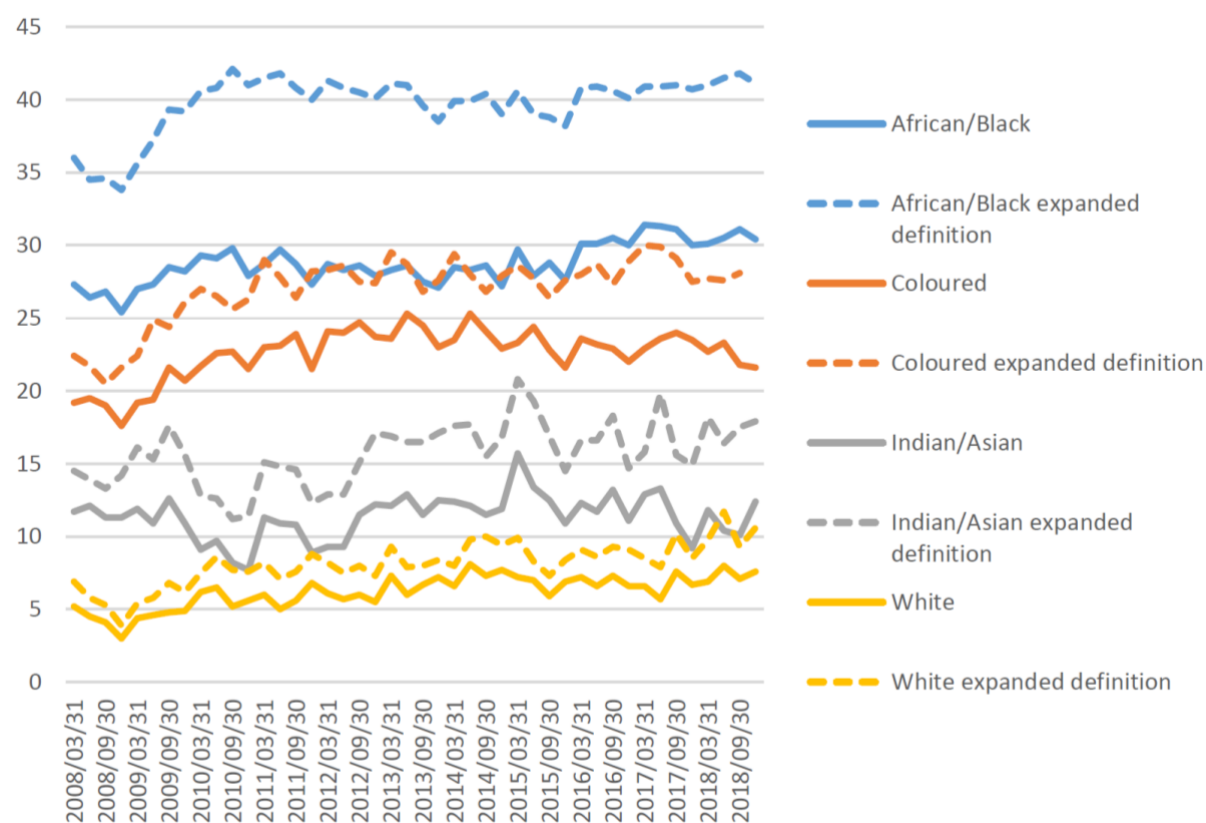


Figure by Newman (2019, p. 36)

While national unemployment rates were universally increasing, the significant differences across racial groups seem to remain relatively constant, which implies no noticeable reduction of the racially unequal determination of unemployment variations, which could be argued to be a social reproduction of existing uneven economic racialized class relations. African/Black groups have anywhere between three to four times higher unemployment rates than the White group. Furthermore, the differences in income within the African population are generally high, but the overall average still lies way below the income level of White households (Finn, 2015, p. 33). Income inequalities were growing both within and across racial groups in South Africa, and it is argued that the pre-existing inequalities induced by Apartheid

were continued and exacerbated through the spread of neoliberalism and financialization. (Newman, 2014, p. 31).

c. Dilemmas of social welfare policy

The previous section provided the necessary contextual overview of the South African historical and political-economic conditions relevant to the study of financialization processes in the country. As the previous section shows, South Africa faces major challenges regarding inequality both in trying to limit its intensification as well as the social consequences stemming from its presence. The debate regarding policy in South Africa is located between the desirable outcomes regarding economic performance and welfare and the realistically feasible outcomes regarding the existing challenges and opportunities (Bernstein, 2010, p. 186). The current social policy model has “evolved from rudimentary, fragmented and largely informal sets of responses to the social challenges, to more sophisticated and formalised interventions” (Chitonge & Mazibuko, 2018, p. 1). After the end of Apartheid, the two first democratically elected presidents, Mandela and Mbeki, consolidated various fragments of the old system into the modern South African state. This included the de-racialisation of public policy, promotion of Black economic empowerment, and increasing service provision to previously marginalized low-income households. The areas of focus for the ANC administration were the expansion of public education, health care, local service delivery and cash transfers to poor households (Seekings, 2015, p. 4). The inherited racial inequalities of the previous regime were a significant driver behind an expansion of the state’s welfare provision and social protection in South Africa (Künzler & Nollert, 2017, p. 7). Broad access to social assistance and especially cash transfers which were introduced in 1998 directly benefitted poor populations and a large portion of ANC voters. This direct distribution of social goods for low-income households was politically very attractive to the ANC government and therefore promoted its expansion. Nevertheless, the quality of public services was, in many areas, still inferior to the privately provided alternatives that higher income groups would choose (Seekings & Nattrass, 2015, pp. 13, 163-164).

Chitonge & Mazibuko (2018, pp. 6-8) have identified five significant dilemmas linked to social welfare policy in South Africa. These five factors will be used as a point of reference to analyse if the financialization of housing further intensifies some of these challenges in the specific case of social policies related to housing and how this might link to respective inequality outcomes.

Firstly, there is a continued “tension between the social and the economic” as the social outcomes of the economy are often seen as disconnected external effects rather than an inseparable part of economic policymaking. In reality, social challenges and welfare needs are often a product of the capitalist system and should be treated as part of economic performance assessments and planning. Especially in relation to social welfare, spending should be seen as a cost of running a neoliberal market system and not as an optional charity for the poor. The second dilemma is the often non-transformative effects of immediate relief. While cash transfers are effective at addressing urgent needs and severe poverty, they would have to be coupled with other reforms that allow for social and structural transformation. A third dilemma highlights the origins of the social welfare system in South Africa, which under Apartheid was aimed at poor White people and therefore was exclusionary to the most impoverished. Bridging this gap from its original design and making it effective for a much larger group of society was and continues to be a major challenge. This dilemma is further complicated through the fourth point, which is “growing needs, constant cake”, which shows how less available resources due to the current economic situation partially limit potential expansions of social welfare. The last point is the continued tension between formal governmental support versus the role of the family, as some see an expansion of the first as a “defamilialisation” and over-representation of the state.

As governments are expected to respond to changes in their social, local and global economic and political context, this also applies to the consequences of increasing financialization and the respective policies regarding housing (Chitonge & Mazibuko, 2018, p. 3). The next section will focus on the housing issue in South Africa in terms of the edges of homeownership, restorative justice policies, phases of housing privatization and the housing gap. In chapter 5, some of the ideas presented in this section, together with the specific information on housing in the next chapter, will be discussed in the context of the inequality outcomes due to an increasingly financialized housing market.

4.2. Housing in South Africa

After providing a brief introduction to the economic and political background, inequality issues and social welfare dilemmas policies in South Africa, this section will provide a more specific discussion of housing issues in the country. The topics discussed include the heterogenous housing needs and logic across income segments, historic restorative justice aims, phases of

housing privatization, social policies linked to housing, and the issue of informal settlements. Housing in South Africa has various meanings depending if the discourse focuses on the formal housing market for personal and financial investments or the availability of affordable shelter for low-income segments of society, which often links to social policy, informal settlements, rural versus urban and inequality discussions. Especially when looking at financial investment risks and the reaches of the mortgage market, the discourse is often shaped by a racialized socio-political history and the debate which requires researchers to go beyond a purely macro-economic or financial perspective on these issues (Butcher, 2016, p. 234). Therefore, housing in South Africa is coloured by high inequality and the locations of properties which define the characteristics and differences of those markets. In one of the most unequal societies worldwide with a large portion of low-income households the need for affordable, often state-financed or supported, housing is accordingly high. Butcher (2016, p. 233) argues that in 2016 about 80% of the population was not eligible for a privately financed mortgage loan. On the other hand, housing in the formal, mortgage-backed South African housing markets is partially exposed to mortgage-securitization (Isaacs, 2018, pp. 317-318).

One of the key focus points of Apartheid was to create segregated neighbourhoods and keep people “apart”. One of the key legislative instruments was the Group Areas Act of 1950 which was crucial for the regime’s racial segregation efforts. The enforcement of which often involved forced removals of non-White groups of society to create “white-only” areas. After the democratic transition, the legacy of Apartheid planning remained and corrective policies were set in place to address the issue of racially segregated cities and areas (Davids, 2022, pp 3-4). Section 26 of the South African Constitution (Republic of South Africa, 1996), therefore states that everyone “has the right to have access to adequate housing” and “the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right”. In practice this has translated into long waiting times on lists for governmental-sponsored housing, as will be detailed later in this chapter (Oldfield & Greyling, 2015, p. 1100).

Ferguson (2015, p. 48) illustrates this dilemma with an anecdote of an older man who has been waiting for his free house for years and mentions he would rather have a house than the right to a house. Nevertheless, through the constitution, the state is obliged to “respect, protect, promote and fulfil” housing rights. As part of this discussion, it is often argued what

is meant by adequate housing, which was often set out as the target for respective government policy. The definition of this is complex, as it depends heavily on the specific housing context and the resulting individual needs. As housing needs differ along rural and urban divisions, it is heavily influenced by spatial inequalities and concerns a variety of housing typologies. Housing types range from urban flats, rental and ownership, and RDP housing to informal settlements (Tissington, 2010, pp. 14-15). Beyond the complexity of housing needs, there are a variety of other problems linked to the implementation of the right to housing which include “land availability, local government capacity and financial constraints, integrated development planning processes and similarly defunct bottom-up planning mechanisms, and inflation in construction-related costs”. (Tissington, 2010, pp. 29-30) The following sections will add some additional insights on financialization processes present in the case of South Africa and how they relate to housing. This will provide the necessary socio-political and historical basis to discuss inequality trajectories due to the financialization of housing processes in chapter 5. For a more detailed account of specific housing policies, see *A Review of Housing Policy and Development in South Africa since 1994* by Kate Tissington (2010).

a. The two edges of homeownership

According to Marais and Cloete (2015, p. 262), the South African housing issue is defined by two edges regarding homeownership (see figure below). The first edge is what they call “policy to bridge the gap”, which includes the reversal of Apartheid-induced racial inequalities through the distribution of residential property to marginalized populations, as well as the drive to lower the effects of persistent post-Apartheid inequalities through social policies which promote homeownership. This edge is especially relevant for low-income segments of society. The second edge applies to existing homeowners, which are implicated by policy regulations, market dynamics and income conditions to maintain their position as homeowners and the linkage of their wealth to their real estate assets. Both of these edges represent a potential move from rental, informal or no housing towards homeownership or the reverse away from it. In a public policy environment where the government sees homeownership as the main objective of its housing strategy, these are the main dimensions along which the issue of housing shows its diverging relevance to households.

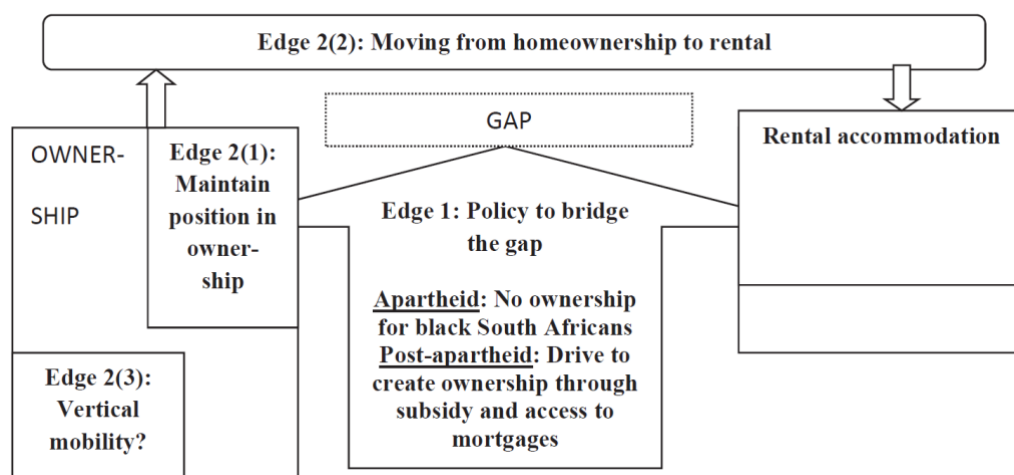
Figure 2. Conceptualising the edges of homeownership

Illustration by (Marais & Cloete, 2015, p. 262)

The other critique, which is linked to this type of understanding of private homeownership as the ultimate solution, refers to the general housing policy as being heavily in favour of the neoliberal model. It is argued that this strong orientation towards promoting homeownership fuelled the process of financialization in South Africa as the main instrument to achieve the desired results was the distribution of capital subsidies to enter the private mortgage market (Fieuw & Mitlin, 2017, p. 2; Migozzi, 2019, pp. 4, 17). It is argued that the South African approach has been heavily influenced by international models using homeownership to fight poverty and inequality. This is a reproduction of the ideas from “Prime Minister Margaret Thatcher’s call for “a nation of homeowners” as well as the academic ideas of economist Hernando de Soto (2000, p. 231) regarding homeownership's ability to achieve social and economic transformation (Lemanski, 2017, p. 104). While homeownership might reduce initial rental costs and create asset ownership, the dependence on capital markets might undermine the limited upward mobility of the real estate assets in lower-income neighbourhoods and ultimately represent a financial burden rather than relief (Lemanski, 2017, p. 104). Another feature of the housing debate and policy in South Africa is the particular focus on “the extremes of the market, prioritising the needs of the very poor alongside the demands of the elite” (Lemanski, 2017, p. 103). This potentially originates from both pressures from an affluent elite which has various channels through which to promote their interest regarding their real estate asset regulation, and pressure from a large group of low-income households which demand liveable conditions in a highly unequal system. A dynamic that can be understood in the Marxist framework of social reproduction of unequal social relations.

The edge of homeownership concerning the restorative justice approach is trying to address the injustices of the Apartheid regime regarding its design of racially segregated geographic and social spaces. “During apartheid, Coloured, Black, and Indian populations faced racial discrimination for accessing housing finance, and Black people were denied property rights in urban areas until 1986”, which till today defines regional and urban spaces and influences most aspects of housing in South Africa (Migozzi, 2019, p. 4). As a result of the liberalization of population movement regulations after the end of Apartheid, the country experienced rapid urbanization (Levenson, 2017, pp. 6-7). As Black homeownership in urban areas was only legalized in the mid-1980s, the private market for a mortgage for most of the population is, therefore, only a relatively recent development. At the same time, in the 1970s the homeownership amongst the white minority of Johannesburg was extremely high at around 80% of households while the majority of Black households were living in poorly serviced and surveilled rental housing in townships, illegal shacks or employers housing (Butcher, 2016, p. 23).

A variety of policies aimed at building a functioning housing finance market, as well as transferring existing or newly built public houses to the Black population of South Africa, led to a significant increase in homeownership levels since the 1980s (Marais & Cloete, 2015, p. 261; 2017, p. 22). The specific case of restorative justice in South Africa shows a divergence in the aims of promoting homeownership from the models used in the Global North as it is not only aimed at reducing the state’s welfare burden but instead tried to reverse some of the inequalities produced under Apartheid (Marais & Cloete, 2015, p. 261). This led to South Africa showing the highest transfer of ownership numbers of free public houses to its population than any other democratic nation (Levenson, 2017, p. 1). Despite these unprecedented results, the overall backlog in producing housing for the low-income population in South Africa has been growing continuously, as will be shown in the following sections (Levenson, 2017, p. 1). Fieuw and Mitlin (2017, pp. 2-3) argue that direct provision of housing programs with ownership transfer, as in the South African case, is rather unusual and often associated with “high costs and limited scale”. The following section will provide a more detailed historical account of policy-driven housing privatization in South Africa, which acts as the partial basis for housing commodification and will be discussed in the following chapters on housing financialization.

b. Phases of housing privatization

Marais and Cloete (2017, p. 23) provide a comprehensive historical analysis of four different phases of governmental approaches to private housing finance in South Africa with the aim of providing mortgage access and housing to formerly excluded groups of Black South Africans. A process that is part of the restorative justice approach outlined earlier and concerns both edges of homeownership as new homeowners through governmentally provided housing assets now face the edge of maintaining homeownership. This analysis will be relevant to understanding how these policy choices might relate to financialization processes discussed in the next section. The first phase started from the mid-1980s to 1989 and was characterised by the creation of a housing platform for an early Black middle class towards the democratic transition. After the Soweto riots in the mid-1970s, land ownership rights for the Black population were expanded, giving rise to this initial phase of broad-based housing policy. During the same period, the neoliberal policies of “Thatcherism” in the UK became a model for different countries across the world, including the South African Apartheid government. This meant the broad commitment to the private sector financed homeownership as part of an asset-based welfare ideology. As a result, five hundred thousand previously publicly owned houses, mostly in formerly Black townships, were sold off during the “Big Sale” (Emdon, 1993), which constituted a massive wave of housing privatization. This is one of the earliest accounts of housing commodification in South Africa as part of a sale of publicly owned houses (July 1983) which represented most of the housing stock in Black townships in Johannesburg (Mabin & Parnell, 1983, p. 148). The acquisition of the legal right to land and home ownership and the dissemination of public housing paved the way for linking these houses to mortgages and, therefore, debt-based ownership. High-interest rates on these mortgages led to large boycotts of interest payments which in turn led to banks classifying former Black township areas as higher-risk investments and often accompanied by a withdrawal from these areas (Tomlinson, 2007, p. 79).

The second phase, 1994-1999, started with the democratic transition aimed at the broad inclusion of private sector housing finance through new policy options. This culminated in a white paper on Housing (Department of Housing, 1994) which focused heavily on public subsidies for housing finance with a central role of private financial sector involvement. It aimed at bringing back banks into the emerging Black housing market, which they disengaged from during the previous period. Despite the efforts of public policy, traditional forms of

housing finance, successful in pre-existing housing markets, did not lead to a broad involvement of banks in the low-income sector (Tomlinson, 2007, p. 78; Marais & Cloete, 2017, p. 24).

The third phase came along with a short period of national economic growth during the Mbeki presidency, which led to lower interest rates in the mortgage market between 2000-2007. Marais and Cloete (2017, pp. 25-26) argue that the period also saw the maturing of housing policies and an increase in the regulation of the housing market. Under the policy package called “Breaking New Ground”, the Department of Housing focused its efforts on quality rather than quantity of housing subsidy and provision, which would foster private sector involvement due to the higher quality of more expensive real estate assets. As part of a financial sector charter, the government aimed to create a “government-supported securitisation” which would pull more private capital into the low-income housing market and try to circumvent the risks of direct investments. This, in turn, led to bigger exposure of low- and middle-income housing dependent segments of society to global capital markets.

The last and most recent phase started with the GFC, which changed the policy approach partially away from the policy-promoted expansion of financial markets into lower-income segments. The growth period until 2009 was paralleled by a housing price bubble which will be discussed later in this chapter. The end of this bubble meant a rapid hike in interest rates under the sudden economic recession in the aftermath of the GFC around 2009. Increasing unemployment levels further complicated the interest payments of low and middle-income households, which were disproportionately affected by the economic downturn (Marais & Cloete, 2017, pp. 26-27). While the two first phases were mainly coined by the policy intent to disseminate private housing finance across all segments of society, the two latter phases were mainly dominated by economic changes both in terms of economic growth and the housing bubble before the GFC and the economic recession thereafter (Marais & Cloete, 2017, p. 23). The nature of the policies adopted further highlights the neoliberal ideologies embraced by the South African government, which favoured private finance provision and a liberal housing market with widespread mortgage debt and homeownership instead of publicly owned housing. According to examples of neoliberal policies in the Global North in chapter 3, this quite clearly shows similarities in how policy choices around privatization enable the financialization of housing also in South Africa. This corresponds to a new exposure of

previously directly publicly managed real estate to market coordination mechanism and penetration of finance and, therefore, IBC into new segments of the population (Powell, 2018, p. 3). This section has given a historical overview of housing privatization, the next section will look at the developments of the housing needs and respective policies adopted by the South African government.

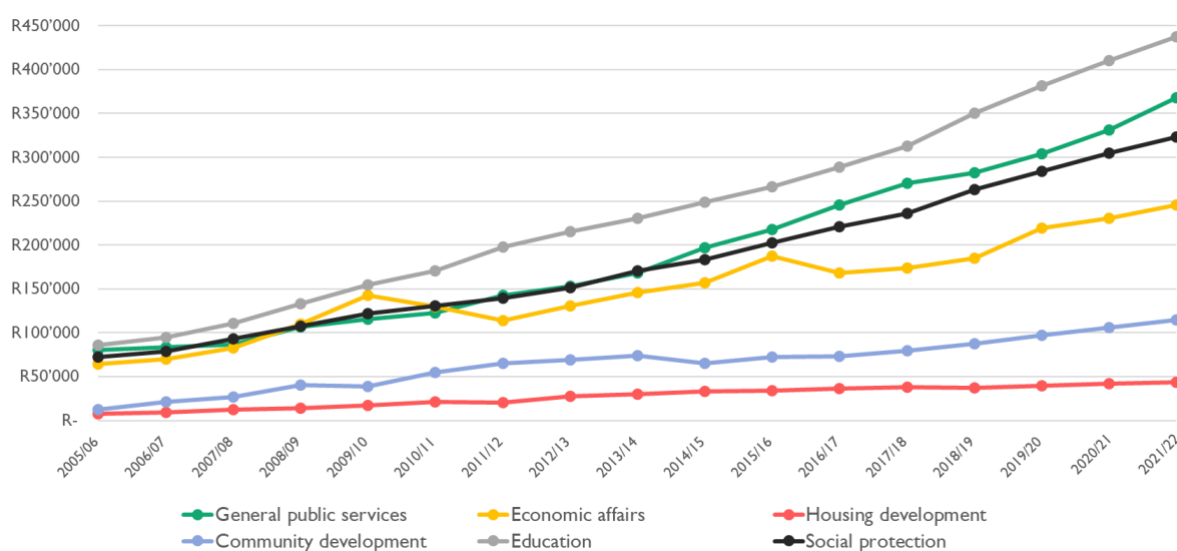
c. The housing gap and informal settlements

It will be necessary to look at some empirical developments in the space of housing policies to connect housing to financialization and discuss respective implications for inequality trajectories in a later chapter. The specific focus will be on social policies aimed at reducing the housing gap as part of a restorative justice approach in South Africa. This will provide a helpful background regarding the ability of such policies to reduce inequality and will be part of discussing the potential impacts of an increasingly financialized housing market.

To underscore the importance of affordable housing for low-income families, it is helpful to provide an overview of the lower-income segment of the formal market. In 2021, 53% of houses were valued at R600'000 and 32% at R300'000 which were mostly government subsidised (CAHF, 2022, p. 2). This shows the need for social policies addressing the need for affordable housing and shows the importance of social policy to address the low-income housing question in South Africa. Historically, Tomlinson (2015, pp. 1-3) argues that initial housing social policies in South Africa after the democratic transition originated from discussions regarding the minimum aim to provide adequate housing on a progressive basis. This can be connected to the previously mentioned restorative justice approach. The initial goal was to construct 350'000 residential structures with access to basic services like water and sanitation annually. The government also quantified the housing backlog within the country at the amount of 1.5 million units. Since the publication of the initial target, the ANC administration has delivered more than 3m housing units, which include rental and ownership subsidies. Despite these vast numbers, the initial backlog grew to an overall gap of 2.1 million units in 2015. At the same time, there has been an increase in the number of informal settlements by 650% (Tomlinson, 2015, p. 1). While the initial programmes built extremely cheap houses for the value of R12'500 each, that amount increased substantially to around R160'500 in 2015. This shows a general trend from focusing on building mainly specific quantities of units towards a focus on building higher quality units over the years. The overall spending on housing and respective services has also increased from around 1% of GDP in

1994 to 3.7% of GDP in 2015. While public spending on housing increased overall, the trajectory of this budget item is far below other public spending positions like education, public services and social protection (see figure below).

Figure 3: Total budget of government expenditure by topic (in million Rand, 2005-2022)



Data retrieved from the South African National Treasury Website (2022)

Many early direct public provisions of housing consisted of large numbers of identical small unit housing projects for low-income households. Ownership of these units was then transferred to individual households. Besides the increasing backlog due to rapid urbanization, the delivery of public housing and the promotion of low-income homeownership face various issues (Seekings & Natrass, 2015, p. 182). These include the interpretation of housing policies and the formulation of the objective that “everyone has the right to have access to adequate housing”. While initially aimed at restorative justice aimed at addressing Apartheid injustices, housing policy was interpreted as the unrestricted right to provide public housing for low-income households (Tomlinson, 2015, p. 3). The potential of fulfilling this objective was relatively low in an environment of rapid urbanization, population growth and increasing unemployment. This can be understood in light of the social welfare dilemma discussed earlier regarding “growing needs, constant cake” with respect to the government’s financial resource constraints (Chitonge & Mazibuko, 2018, pp. 6-8; Tomlinson, 2015, p. 4). A second issue concerns the delivery of housing objectives by either the national or local government and the role of private developers. While the initial programs were planned and implemented by

the national ANC government, the increasing dissatisfaction with the cheaply built houses led to a transfer of responsibility to local governments. This task often overstretched the abilities and resources of local authorities due to its complexity, both technically and politically. There have also been significant challenges in terms of upgrading the growing number of informal settlements. (Tomlinson, 2015, pp. 5-6)

Another defining element of the housing thematic in the South African context is the presence of an informal housing market in parallel to a formal, often mortgage-backed housing market. As shown above, despite high initial delivery numbers after 1994, there has been an increasing backlog in housing and an increase in the expansion of informal settlements in South Africa. While there were about 300 informal settlements in 1993, the number increased to more than 2'225 in 2015, primarily located in the three most significant urban centres (Tomlinson, 2015, pp. 2, 3, 9). This development has mainly been fuelled by opportunistic land occupations stemming from rapid urbanization and de-racialisation of urban spaces (Levenson, 2017, p. 15). While initially left out of social policy, upgrading is now a major ambition of public housing policy aimed at reducing the backlog and addressing the needs of informal settlements. This is part of a broader development of governments acknowledging the value of informal settlement and shelter policies in reducing urban poverty (Fieuw & Mitlin, 2017, p. 2). The process of upgrading has nevertheless seen significant challenges in implementation due to the complexity of operating within the dense spatial and political space of existing informal settlements (Tomlinson, 2015, pp. 5, 12). From Harvey's (2014, pp. 377-381) Marxist perspective, informal settlements represent one axis of a "spatial expression of inequality" and social class.

4.3. Financialization in South Africa

This chapter will provide evidence characteristics of financialization present in the South African economy. The selection of characteristics follows a Marxist perspective on financialization outlined by Fine (2013). For the identification of specific characteristics of financialization, this paper will use Powell's (2018, p. 3) consolidated list based on Fine's paper "The material and culture of financialization" (2016) which includes:

1. The expansion of financial markets, institutions, and instruments
2. Financial deregulation and liberalization
3. Growth in financial "innovation"

4. Increasing dominance of finance over manufacturing
5. Increasing reliance of governments, firms, and households on market coordination mechanisms
6. The use of capital gains in housing for collateral
7. Penetration of finance into a widening range of social spheres
8. A culture of reliance upon the market.

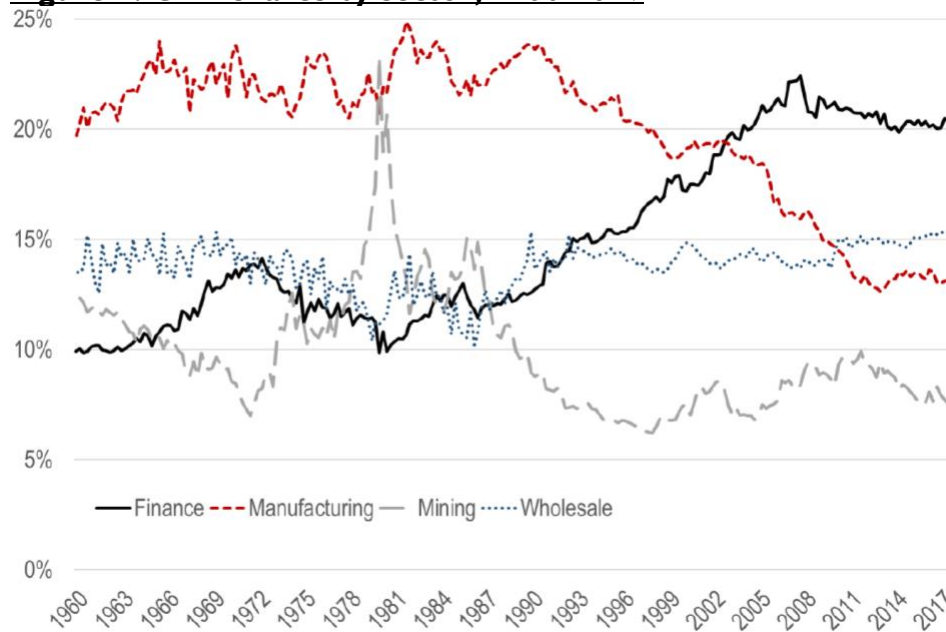
The selection of case-specific indicators will be supported by relevant Marxist accounts of the South African context. The discussion of these general characteristics of financialization in South Africa will serve as a foundation for discussing housing and inequality outcomes later in the case study. In this section, the paper will discuss the general characteristics of financialization in South Africa based on the illustration above, including their link to the sectoral makeup of the economy, international in- and outflow of capital, corporate financialization and finally, the evolution of debt of South African households. These characteristics also broadly correspond to the research axes relevant to IFS outlined by Alami et al. (2022, p. 20) which range from historical and economic sectoral analysis to the role of government and their policies. To maintain a coherent structure to the argumentation and illustrate the various linkages between financialization, housing, and inequality, the section concludes with a visual mapping, which will be further expanded in the following sections. Linked to the characteristics discussed in the coming sub-sections, there will also be a discussion of the implications of each dynamic of financialization processes and financialization of housing for income and wealth inequality in South Africa at each iteration of the model at the end of each section.

a. Premature de-industrialization

The first characteristic of financialization in South Africa concerns the changing sectoral makeup of the domestic economy. This development corresponds with two of the characteristics of financialization provided by Fine (2016) and listed at the beginning of this chapter, namely “the expansion of financial markets, institutions and instruments” and the “increasing dominance of finance over manufacturing” (Powell, 2018, p. 3). It represents a global trend of the diversion of economic activity away from the real/productive economy toward the financial sector. Capital-based wealth is growing relative to labour-based income, which incentivises both the accumulation of assets and the expansion of the finance sector. This can be related to the previously discussed secondary circuit of capital circulation from a Marxist perspective. As investments in a primary circuit of industrial production become less

attractive, capital starts switching into a secondary circuit and therefore increasing the relative accumulation away from the productive sectors towards the financial ones. This further allows the increasing presence of fictitious forms of capital in a volatile financial market increasingly disconnected from productive value added (Harvey, 2012, p. 6). This can be empirically illustrated by an increasingly independent financial sector that relies less on the dynamics of the real economy (Deutschmann, 2020, pp. 31-33). These dynamics can be clearly observed in the South African case, where manufacturing continuously constituted above 20% of GDP from 1960 until the late 1990s (see illustration below).

Figure 4: GDP shares by sector, 1960-2017



Graph by Ashman, Fine and Karwowski (2021, p. 10) based on 2018 SARB data

What can be observed when looking at the GDP per sector data is a steep decline in the manufacturing share of value-added that coincided with a substantial increase in the relative importance of the financial sector in South Africa. This is a clear indication of an increasingly financialized economy and a growing influence of international capital markets in determining the performance of the domestic economy. Later in this paper it will be shown that in parallel to this decrease investments from NFC has also become increasingly short-term and aimed at international financial market returns rather than productive and domestic industry investments. The decreasing growth and employment in manufacturing can be further linked to a phenomenon called “*premature deindustrialization*”, defined by Rodrik (2016, pp. 1-2) as a shift toward a service-driven economy in the Global South in the earlier stages of their industrial development as compared to the Global North. Premature deindustrialization limits

these countries, including South Africa, from benefiting from the advantages of a process of industrialization with respect to economic growth and stability. Adverse effects include the loss of a highly technologically dynamic sector, the ability to absorb unskilled labour at scale, and the tradability of goods which enables growth beyond a domestic market. These implications of lowering manufacturing value-added seem highly relevant to the specific social and economic challenges in South Africa. Trends like lacking economic growth and high unemployment levels correlate with the country's underperformance in the tradeable manufacturing sector (Rodrik, 2008, p. 1). In many middle-income countries, including South Africa, financialization dynamics include the shift of resources away from the real economy towards a deepening and broadening of the financial sector. This increases their exposure to financial markets, especially when such deindustrialization towards services and finance is happening based on a volatile economy featuring high levels of inequality and unemployment (Andreoni, Robb, & van Huellen, 2021, p. 215).

Newman (2014, p. 13) further argues that the South African economy's historical roots are closely linked to capital-intensive industries due to mining and natural resources. Manufacturing industries were historically associated with the up and downstream processing of natural resources and a regulative priority for the Apartheid government, which closely guided these industrial developments. These structural features of the MEC, influenced heavily by governmental design and policy, are the foundation upon which financialization processes in South Africa thrive. The lack of linkages outside the MEC regarding productive investments led to high capital gains and investment concentrations within and around the MEC instead of broad linkages to new sectors and industries. Ultimately the low rate of external MEC linkages and investments “reproduced old apartheid patterns of investment” (Newman, 2014, p. 45). While structural legacy features such as the MEC laid the foundation for financialization processes, macroeconomic policies linked to the Growth Employment and Redistribution (GEAR) program further exacerbated these trajectories. GEAR was aimed at a “reduction of the government deficit, central bank independence and inflation targeting and liberalisation of the current and capital accounts”, which has mostly translated to a supportive environment for a growing financial sector and a further reduction of manufacturing value-added (Newman, 2014, p. 70). This is further exacerbated by capital outflows, and illegal capital flight, as Ashman, Fine and Newman (2011, p. 7) argue in their analysis of South African international capital flows. With a peak of mostly illegal capital flight at 12 per cent of GDP in 2007, it shows

the significant scope and macroeconomic relevance of such capital movements. This has been shaped mainly by the internationalization of South African conglomerates, especially mining companies, as part of the MEC, after the end of Apartheid and has been accompanied by falling investment levels in domestic manufacturing and productive sectors. Ashman, Fine and Newman (2011, pp. 10-11) further argue that such capital flight should not be viewed as a result of individual motivations of tax avoidance and a result of political instability but rather a structural shift as part of the historical trajectory of South Africa closely related to MEC industries and the adoption of global processes of financialization. Isaacs (2018, p. 325) similarly argues that the internationalization of the economy and the MEC in particular as well as the extensive capital exports has displaced jobs towards foreign suppliers and that the broad ranging liberalization was devastating for the local manufacturing sector. The enabling forces behind this de-industrialization, he further argues, were the lack of growth-intensive linkages of the MEC to the rest of the economy with mostly low-wage job demands. Furthermore, Edwards and Lawrence (2006, p. 54) argue that trade advantageous policies for capital-intensive primary and manufactured commodities was detrimental for non-commodity-based exports which limited a structural shift towards a more diverse manufacturing landscape.

De-industrialization and global capital outflows reduced the relative importance of manufacturing, and in parallel, the financial sector expanded significantly. So did the global connectedness of these actors in relation to high mobility of capital through specifically designed “tax avoidance and capital flight (...) vehicles” (Ashman, Fine, & Karwowski, 2021, pp. 19-20). This increased influence, both through legal and illegal means, further underlines the counterproductive aspects of financial growth for domestic economic growth and employment (Ashman, Fine, & Karwowski, 2021, pp. 19-20). Newman (2019, p. 17) has shown this low level of investment into non-MEC and non-financial industries, which have stayed far below the ones in the MEC and the financial sector, especially in the years after 2006. While investments in the MEC, including transportation and storage, have almost doubled in that period, finance investments have increased after a short downfall after the GFC, and non-MEC manufacturing investments have remained at low levels, despite a short growth period before the GFC. Furthermore, the impact of the GFC in South Africa led to further liberalization policies to facilitate short-term capital inflows with worsening effects on exchange rate stability and export prices in the manufacturing sector. Of 484'000 lost jobs in

2009, 31% were in the manufacturing sector alone, and there has not been a full recovery. The finance sector, in turn, faced advantageous conditions due to the aforementioned liberalisation of capital accounts (Newman, 2014, p. 71).

This sub-section shows how financialization in South Africa is characterised by negative growth in the manufacturing sector and increasing relevance of the finance, insurance and real estate (FIRE) sector. This further underlines the relative importance of fictitious capital in a secondary circuit in the context of a declining role of the productive economy. Connecting South African financialization to de-industrialization further explains part of the persistent challenges in the labour market, such as unemployment and wage labour-induced inequality, which will be further discussed at the end of this section. (Newman, 2014, p. 32) These developments are also congruent with the literature of IFS as it corresponds to the subordinate positioning of South Africa in global production networks with the respective value transfer of primary industries such as the MEC in countries of the Global South to the core and the headquarters of relevant corporations often headquartered in the Global North (Bonizzi, Kaltenbrunner, & Powell, 2022, pp. 663-665). Furthermore, de-industrialization is co-dependent with other characteristics of financialization such as economic policies, global capital flows and corporate financialization. These will be discussed in the next sub-sections, gradually moving towards a visual mapping of the various characteristics of the financialization of housing process in South Africa.

b. Global flows of capital

From a Marxist perspective, a crucial indicator of progressing financialization is the expansion of the circuits of fictitious capital internationally and the respective flows of capital into circuits of higher profitability (Fine & Saad-Filho, 2016¹, p. 7). These changing dynamics in global flows of capital represent multiple of Fine's (2016) characteristics of financialization as outlined at the beginning of this chapter (Powell, 2018, p. 3). It is an expansion of activity in global financial markets facilitated by their liberalization and increases the exposure of domestic enterprises to global finance. For South Africa, it increases the dependency of the domestic economy and its actors on the dynamics of the global markets. While some of these dynamics are observed globally due to globalized and neoliberal capitalism underpinned by financialization, certain features are particular to the South African case. The country faced various sanctions during the Apartheid regime, and the democratic transition coincided with increasing exposure to global financial markets due to adopting a neoliberal model. (Karwowski, Fine, & Ashman,

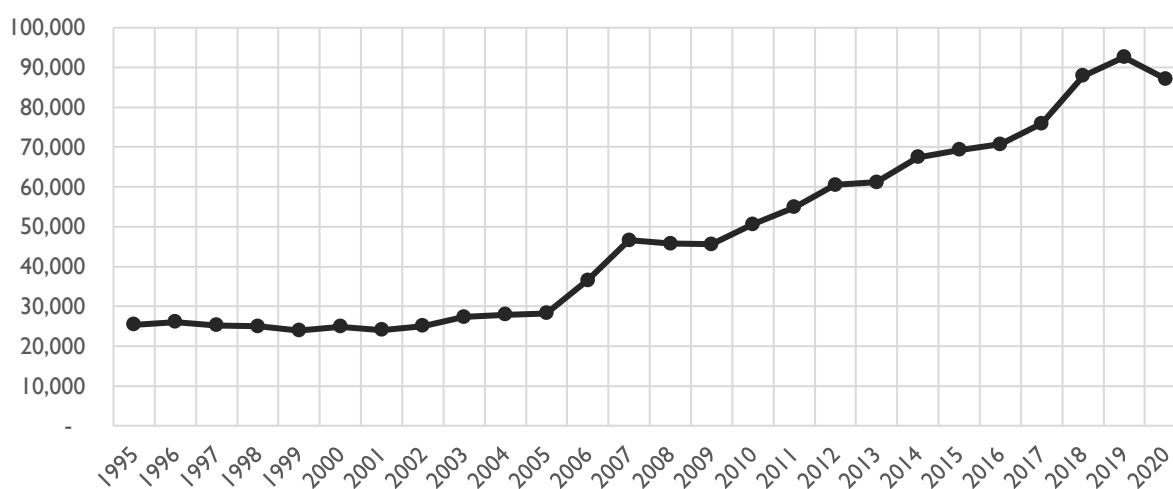
2018, pp. 384-386) Additional features previously highlighted regarding financialization in the Global South include the relative “subordinate” positioning in global economic and currency hierarchies, which lead governments to adopt high-interest rate models to attract foreign short-term capital investments and compensate for their trade deficit. These flows of foreign direct investments are often classified as speculative and increase the prevalence of fictitious capital in the domestic economy (Mollo, Dourado, & Paraná, 2022, p. 957). In South Africa, there were large current accounts since the late 1990s, which stemmed from large capital inflows due to a regime of high domestic interest rates. The liberalisation of its capital account resulted in a dual trend of domestic capital outflow and international short-term capital inflow at the expense of local long-term productive investments. (Karwowski, Fine, & Ashman, 2018, p. 4; Fine, 2010, p. 14) Hickel (2021, p. 72) argues that South Africa’s short-term bonds represent around 80 to 90 per cent of all capital inflows and are mostly bonds and equity investments, not long-term investments which could lead to employment creation. As the chosen monetary policy depends on those inflows and limits the amount of outflow from domestic capital, the SARB is actively supporting the interests of bond and equity investors. Due to swift deregulation, international integration and monetary policies, South Africa has been exposed to “new forms of vulnerability constituted by the risk of large capital flow gyrations and domestic asset price movements independent of domestic economic conditions” (Isaacs & Kaltenbrunner, 2018, p. 438).

The exposure to global financial markets after the end of Apartheid has turned the South African economy “from being a net lender to a net borrower from the rest of the world” (Newman, 2014, p. 10). These inflows have, amongst other things, allowed for the rapid expansion of the financial sector (Newman, 2014, pp. 64, 69). The combination of high-interest rates to attract foreign capital and inflation-targeting policies further exposed the economy to global capital markets. This led to subdued domestic investments into the real economy and promoted the decline in manufacturing (Isaacs, 2014, p. 16). Furthermore, illegal capital flight and non-financial corporations (NFC) investment behaviour further fuelled foreign capital dependence (Ashman, Fine, & Newman, 2010, p. 183). As mentioned previously, this large amount of illicit capital flight, which amounts to a significant percentage of GDP, was detrimental to productive domestic investments (Ashman, Fine, & Newman, 2011, pp. 10-11). Fine (2016, p. 14) argues that it further accelerated financialization processes due to the chosen macroeconomic policy regime that was generally beneficial for illegal capital outflows

due to high domestic interest rates aimed at capital inflows and a strong domestic currency. Global capital flows, therefore, constitute an essential international dimension of financialization. This is strikingly illustrated by the fact that an average of 40% of all South African shares issued are being bought by foreigners (Karwowski, 2018, pp. 4-5, 10). The overall foreign ownership in the South African asset market has been increasing since the early 2000s, which included both equity and debt (Andreoni, Robb, & van Huellen, 2021, p. 224). This represents an increasing dominance of global financial investors and a significant driver of financialization in the South African economy. It can be classified as an intensive and extensive expansion of IBC that is restructuring patterns of accumulation and capital circulation. This development has mainly benefited local and foreign finance capital and increasingly disconnected the performance of the local economy from domestic factors (Isaacs & Kaltenbrunner, 2018, pp. 452-453, 456). The large outflows of dividends to assets bought by foreigners can be linked to poor levels of domestic investment and has exposed South Africa to new external vulnerabilities from speculative trading and asset price inflation (Isaacs, 2018, pp. 210-211).

A further indication of an increasingly global capital market-dependent economy can be found by looking at the foreign debt of South Africa. Since the early 2000s, the foreign currency reserves of South Africa have been increasing significantly (from 2% of GDP in 1994 to 13% of GDP) with a parallel currency appreciation compared to the USD until around 2015. (Ashman, Fine, & Karwowski, 2021, p. 13) A similarly steep increase is reflected in the overall foreign debt owned by South Africa (see figure below).

Figure 5: Foreign debt of South Africa (currency denominated, m Rand)



Author's own illustration based on SARB data (2022)

These high levels of foreign reserve accumulation through increased short-term capital inflows create lucrative investments for financial investors and alternatives to fixed capital investment (Ashman, Fine, & Karwowski, 2021, p. 14). This section showed how in the case of South Africa, there is an observable monetary and macroeconomic policy-promoted trend of international capital inflows and integration with global financial markets. It also represents an extraction of surplus value from the South African economy in search of capital returns elsewhere as well as foreign capital searching for further circulation in the South African market. This is a trajectory that will expose the country to a further expansion of financialization processes and expose the domestic economy to internationally induced volatilities. This integration unfolds both through the inflow of high interest seeking short-term capital investments and foreign buyers to domestic assets such as equity, real estate and other types of assets. It also signifies a dimension of IFS where capital is moving from the periphery of the economy to its centres in the Global North (Fernandez & Aalbers, 2019, p. 7). With regards to direct inflows of capital to acquire real estate assets and therefore financializing the housing market directly, Davids (2023, pp. 105-106) has argued that this is a very limited phenomenon. Based on his analysis of the Cape Town real estate market he finds that foreign house buyers mostly acquire middle to high-price assets which is a market that is concentrated around very specific urban areas and neighborhoods and would not reach a scale which would influence the housing market broadly.

c. Corporate financialization

The previous sections have linked the shrinking role of the manufacturing sector, the global in and outflow of capital, as well as the globally increasing share of capital gains versus the real economy in South Africa to the spread of IBC and secondary circuits of capital in a financialized stage of capitalism. This section will provide some insight regarding another central process of financialization, namely corporate financialization. In the South African context, this signifies the previously discussed international integration of domestic firms, the increasingly foreign currency-denominated nature of corporate assets, changing investment patterns, the growing profits materialized by NFCs in the financial market, and the rise of shareholder value maximization (SVM). These developments correspond with the characteristics of the increasing dominance of finance over NFCs, and higher reliance on market mechanisms by domestic corporates (Powell, 2018, p. 3). Isaacs (2018, p. 286) argues that it is crucial to understand the role of corporates for the broader system of accumulation of the South African economy in the age of financialized capitalism. Their main features are first the

changing ownership structures and concentrations of big corporates and their internationalization, second the short-term funding from international markets for NFC investments and the pressure to maximize shareholder value, and lastly the continued relevance of MEC-sectors for the economy accompanied by a growth of the financial sector. Moreover, indirectly, NFCs changing investment behaviour has crucial implications for the South African housing and mortgage market, which will be shown in chapter 4.4 (c).

As already mentioned, the pressure of high-interest rates and global capital in and outflow is especially felt by domestic NFCs. The opening towards international markets at the end of apartheid represented both a shock in goods prices and the opportunity to capitalize on international financial markets. In parallel to decreasing levels of productive investments, NFCs started investing in financial assets locally and globally as they promised high returns. This trend towards speculative investments integrated individual NFCs and the overall economy into the global financial market. (Newman, 2014, p. 41) It represents an integration of the previously excluded NFCs into the circuits of fictitious capital investments and, therefore, extensively expands the scope of IBC in the South African economy. International trends regarding NFC's financial investments had to be adopted by South African companies to stay competitive.

Shareholders generally have an interest in maximizing a company's profit, but this often does not align with the interests of various stakeholders of a company, such as workers, managers, and creditors. The trends towards SVM can clearly be seen in South Africa as international investors put pressure on local NFCs to pay similar profit returns as their international competitors. The shareholders then reinvest the additional profits into financial assets, creating an expanding extraction from productive NFC investments towards higher returns on the capital market. For the NFCs, this naturally meant lower levels of internal capital available for productive investments and an increasing need to take external credits from the capital market. (Fine & Saad-Filho, 2016², p. 153) This dual dynamic, therefore, represents an ever-expanding integration of NFCs into financial markets. In the South African context, this meant the restructuring of big domestic corporates, which increased capitalisation, short-term financial gains and international integration accompanied by decreasing levels of long-term investments, productivity, industrial development, and employment (Fine, 2016, p. 15).

Empirical examples of these corporate financialization processes in South Africa include the “corporate restructuring associated with financialization, namely downsizing and outsourcing of non-key functions and increasingly precarious employment standards and high levels of informality that place downward pressures on wages for low-skilled jobs” (Newman, 2014, p. 73). This is further illustrated by the analysis of Andreoni, Robb and van Huellen (2021, p. 228), where they examined the two prominent South African corporates, Sasol, a petrol company, and Shoprite, one of the biggest wholesalers in the country. Both companies were experiencing the extraction of “excess cash” and its allocation in financial markets, primarily through dividend payments. The analysis shows a corporate “increase in financial activity relative to productive activity, indicated by an increasing reallocation of precious firm resources away from productive investment and toward financial interests” in the case of Shoprite and Sasol (Andreoni, Robb, & van Huellen, 2021, p. 231). A further indication of this is an increasing share of dollar-denominated assets debt which exposes mostly Rand profit-based companies to significant currency fluctuation risks (Andreoni, Robb, & van Huellen, 2021, p. 232). While some general processes of financialization, such as SVM, are broadly observable across different sectors, they are coined explicitly by a variegated process of how financialization unfolds relative to that sector.

This section shows how corporate financialization in South Africa generally happens through the international integration of NFCs to global fictitious capital markets, the spread of SVM, and increasing dividend payments which allocate excess cash from the productive economy towards these capital markets. This background will be crucial for the analysis of this dynamic in mortgage and housing markets in South Africa under chapter 5 and its respective implications for inequality outcomes.

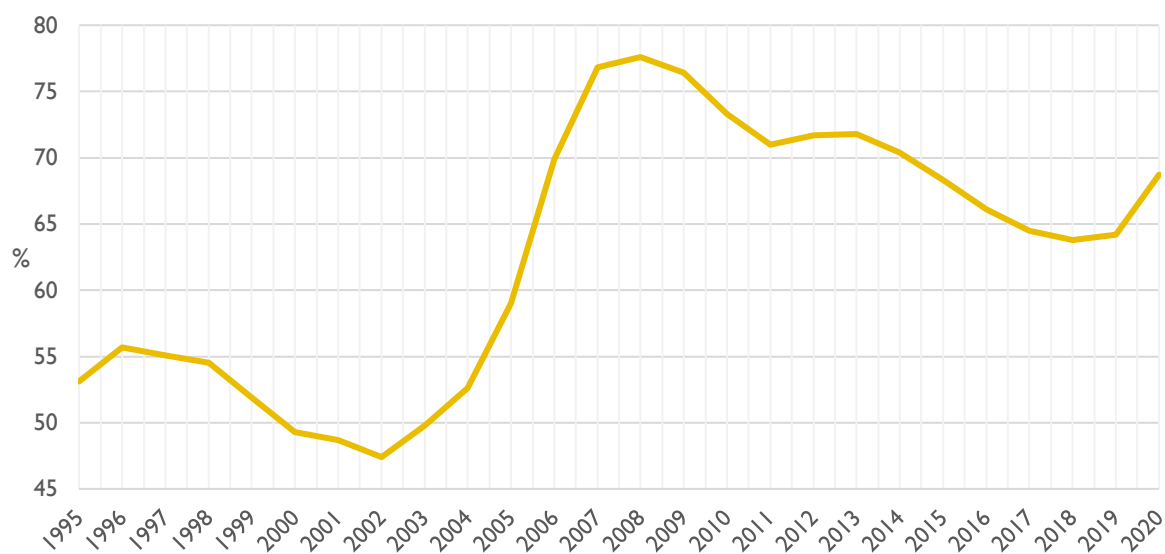
d. Increasing indebtedness

One of the most direct avenues for financialization, and therefore IBC, to expand its circuit of influence is through an increase in debt levels which equals an expanded exposure of households, businesses, and governments to the dynamics of financial markets (Fine, 2013, p. 56). This further represents a penetration of capital into a widening range of social spheres if the debt is being accumulated in non-traditional circuits of IBC, such as specific housing markets or income groups. Furthermore, increasing debt levels is a pathway to increasing aggregate demand both locally and internationally and to continue capital circulation. For example, expanding mortgage markets inflate housing assets and stimulate consumption

(Bonizzi, Kaltenbrunner, & Powell, 2019, p. 6). Dos Santos (2014, pp. 212, 232) shows in his Marxist-based Circuit of Capital analysis that economies that rely heavily on credit-based consumption also produce higher overall credit risks and decrease wages relative to profit levels in the economy.

While the South African household debt level remains below the global outliers of the US and UK, it is surprisingly high compared to other countries in the Global South (Karwowski & Stockhammer, 2017, p. 60). In 2005, the South African economy switched from being a net lender to borrower, with a reduction in the overall savings (Newman, 2014, p. 11). Most of such debt is being accumulated through mortgages, the rapid expansion of which in turn generally increases housing prices, the impact of which will be discussed in the following two chapters. (Karwowski, 2018, p. 4) The overall debt development as a percentage of disposable income is shown in the figure below.

Figure 6: Household debt to the disposable income of households (1995-2020)



(SARB, 2022)

The years 2002-2008 saw a massive increase in overall in-debtiness of households with only partial recovery after the GFC and a potential increase during the recent years of the COVID-19 pandemic. With around 86% of South Africans engaged in a type of borrowing or credit relation in 2013/14, the country has one of the highest debt levels in the world with around 22 million active credit users in 2015, of which more than 40% were in default (Isaacs, 2018,

pp. 292-294). Furthermore, large percentages of the growing debt seen in the figure above have been linked to the banking and capital inflows discussed in section (b) of this chapter. The steep decrease of debt-levels in 2008 can be seen as evidence of an increasing global financial integration which shows the impact of the GFC in the local economy and for domestic households (Isaacs, 2018, p. 295). The important role of mortgages will be discussed in the next section. A similarly steep increase has been observed in the credit allocated towards the private sector as a percentage of GDP, which increased from 110% in 2002 to 160% in 2007 (Migozzi, 2019, p. 7). While the debt levels increased for the government, NFCs and households, the other side of this coin has been a net positive effect on the financial position of financial corporations and foreign creditors (Newman, 2014, p. 12). The implications of an increase in debt levels for inequality outcomes will be discussed later in this chapter.

e. Model part one: Aspects of financialization in South Africa

The past four sub-sections have given an overview of distinct but interrelated characteristics of general financialization present in the South African context. The following illustration shows the first dimension of the model described in the methodology section that will provide a mapping of the financialization of housing processes in South Africa and will be used to structure the discussion of inequality outcomes:

Characteristics of financialization



The model will be extended by including both housing-specific characteristics of financialization and policies around low-income housing access in the following chapters. It should provide a relevant overview for further studies to expand or zoom into specific elements of the existing model by future research or to discuss specific implications of housing financialization such as inequality in this research.

Most of the characteristics discussed at this general level of financialization are interlinked. From a Marxist perspective on financialization, many of the specific empirical indicators are impacted by the structural process of an expansion of IBC and capital entering a secondary circuit of capital, increasingly turning into more fictitious forms which constitutes the

transversal element of the model. This generally translates to interlinking previously potentially disconnected elements through financial markets. One example would be the increasing in-debtiness of low-income households. Previously, low-income households would have had less access to credit debt and were still disconnected from capital markets. In the scenario of the proliferation of debt-led consumption for low-income households, they would now be directly connected to IBC markets and are turned into customers of financial institutions. In this example, the enabling features for financialization are liberal financial lending regulations, the availability of capital through global inflows, and the expansion of a financial industry looking for new markets and customers. This example should illustrate how an extensive expansion of IBC into new segments of society is characterized by the interlinkage between various general characteristics of financialization of the model above. In the following iterations of the model, some specific links with housing and policy around housing access will be presented in more detail.

f. Financialization and inequality

The characteristics of financialization processes identified as relevant in South Africa in the past sub-sections already provide a basis to discuss some general linkages between the spread of IBC and inequality trajectories. The following paragraphs will provide such a discussion.

De-industrialization and internationalization

As shown earlier in this chapter, there has been a significant decline in manufacturing value-added relative to GDP, with a paralleled increase in the FIRE industries' respective contributions. The manufacturing sector traditionally employed large numbers of South African workers and presented an opportunity for upgrading along the value chain. The recent decline in the South African manufacturing value-added corresponded with rising levels of unemployment. The increasing size and role of the financial sector, contributing around one fifth of the country's GDP in 2017, did not compensate for the decline in employment, as despite its total value added of 20%, it only provided about 3.5% of employment opportunities, around 550'000 jobs, from which only a minor share are low-skilled (Karwowski, Fine, & Ashman, 2018, p. 385). The majority, around 80% of jobs in the financial sector, require formally semi-skilled workers which excludes large groups of South Africa's population (Newman, 2019, p. 32). This development that stands in stark contrast to an increasing need

for jobs, often low-skilled, in a country with high unemployment and inequality. As shown in chapter 4.1, differences in wages and unemployment are the primary drivers of inequality in South Africa. Therefore, the process of financialization and concurrent de-industrialization of the economy relates closely to the dynamics of worsening inequalities in South Africa. The continued growth of inequalities in the post-Apartheid period, Isaacs (2018, p. 327) argues, can therefore at least partially be linked to a financialized MEC which limited the ability to achieve more inclusive growth patterns.

Furthermore, the deepening of the South African financial sector in the past decades has led to increased exposure to global financial markets. Andreoni, Robb, and van Huellen (2021, pp. 213, 215) argue that the internationalization of the economy, through its integration into global financial markets, provided a platform for the further spread of fictitious capital into the South African economy. As NFCs have increasingly diverted investments from productive towards financial ones, they extended their dependence on foreign capital market performance and increased their internal financing needs through US-dollar-denominated debt. This has exposed NFCs to volatilities in exchange rates and the risk of externally defined interest rates. This made the financial performance of South African firms increasingly delinked from domestic developments. This trend is especially problematic in light of high domestic economic instability, unemployment, and inequality. (Andreoni, Robb, & van Huellen, 2021, pp. 213, 215) The intensive and extensive expansion of IBC markets in South Africa represents a process of restructuring productive capital from a Marxist perspective (Fine, 2012, p. 58). The reduction in employment opportunities worsens and limit the reduction of pre-existing inequalities. This changing pattern of accumulation disproportionately benefits the elite and corporates which are integrated into international financial markets on beneficial terms (Isaacs, 2018, p. 325). The move towards financial industries creates few employment opportunities in low-skilled, low-income segments of society. This can be identified as a process of social reproduction of neoliberalism through financialization processes which redistribute income towards a class of capitalists (Fine & Saad-Filho, 2016², p. 153).

Increasing indebtedness

As shown in a previous section, debt levels relative to disposable income in South Africa have increased significantly in the past decades. The consequence of this trend is a tale of two distinct realities depending on the respective income segment. Debt-driven asset acquisition

is an exclusive ability and trend for high-income sections of society, which use the additional capital to acquire financial assets, for example, real estate and corporate shares, without sacrificing their consumption. Foreign capital inflows and corporate investment behaviour, which will be discussed in more detail later, allow for an overall expansion of debt which increases the availability of mortgage and consumption credits. The acquisition of credits for financial assets is an exclusive phenomenon for the top 25% of income earners in the country. Through their acquisition of financial assets and increasing debt levels, they have actively integrated with financial markets, which exposes them to the fluctuations of these markets. (Newman, 2014, pp. 57-58) The credits at lower-income levels have much lower size but are much more numerous in count. This leads to a proliferation of short-term risky borrowing for consumption at high interest rates (Isaacs, 2018, pp. 142, 301-303). Beyond the debt-driven acquisition of assets, the overall credit debt in South Africa has been increasing across income groups. For low-income households, however, such an increase meant the compensation for income shortfalls, high unexpected expenses and the effects of overall low wages and irregular employment. A decrease in disposable income due to interest payments naturally has a more severe effect on essential consumption in lower-income groups. (Newman, 2014, pp. 58, 74) The increasing relevance of financial institutions through credit is also illustrated by the expansion of the proliferation of banking use with only 38% of low-income households having banking service access this number has doubled between 2006 and 2016 (Isaacs, 2018, pp. 300, 323). This development has certainly been partially influenced by the democratization of technology, online banking, and smartphones. Nevertheless, while wealthy households were able to ensure future profits at the expense of current debt levels, low-income households increased their credits for current consumption. Especially micro-lending which should encourage “bottom-up” enterprise and job creation in poor communities in South Africa has had little effect on productive investment and is rather used for urgent consumption needs (Isaacs, 2018, p. 298).

These two distinct stories for differing income segments have significant implications for the trajectories of inequality in South Africa as rich households are able to ensure future income through financial assets while poor households are barely able to keep up essential consumption levels by adding additional burdens on future consumption and income due to interest payments. The unequal distribution of assets is worsened by its exclusive access to debt necessary to acquire them, and the inflation of asset prices and growth of capital markets

will increase both income and wealth inequalities in South Africa. (Newman, 2019, p. 23) In South Africa, due to its legacy of marginalization, these inequalities are heavily racialized both regarding existing residential and financial asset ownership and employment levels. Therefore, the shift towards an increasing role of the financial industries and returns from capital markets implies worsening inequalities under financialization. As the growth of the financial sector and the returns generated from assets increase, households with existing financial assets will benefit from such developments. Capital and real estate assets can be further transferred over generations. These developments show how financialization disproportionately benefits existing asset-owners primarily located in higher-income segments. Isaacs (2018, p. 306) similarly argues that the overall wealth inequality in South Africa is even higher than income inequality, with the top 10% in the wealth distribution owning around 99% of all financial assets, which strikingly illustrates how financialization and divergent credit use might further worsen inequality trajectories. As unemployment, especially in low-income segments, increases and the gains from wage labour relative to capital decrease, the rise of income inequality seems inevitable. This links to an overall feature of South Africa's distribution of wealth and income along class and race, which constitute an uneven development pathway with parts of the population profiting from an advanced industry and rich lifestyles and while large parts are living in poverty (Ashman, Fine, & Newman, 2011, p. 15). A change in the relative distribution from wages to capital gains, the respective reproduction of class, supported by a neoliberal model after the end of Apartheid, lowered the chances of a reversal of existing and growing inequalities even further. (Ashman, 2019, p. 11; Ashman, Fine, & Karwowski, 2021, pp. 1, 17, 19, 22)

4.4 Financialization of housing in South Africa

The previous sections have presented the necessary background, outlined the issues surrounding the edges of homeownership in South Africa, and presented evidence of general processes of financialization and their implications for inequality trajectories. This section will combine these with the specific characteristics of housing financialization in South Africa to discuss respective inequality outcomes. Furthermore, chapter 3 has already outlined some of the theoretical backgrounds of a Marxist perspective on the linkages between financialization and housing. These included the role of housing in the absorption of capital into a secondary circuit, the role of increasingly liquified housing assets in facilitating this, the social reproduction of uneven class relations through housing, the mortgage debt-based expansion

of demand and consumption, as well as the rise of fictitious investments and corporate ownership structures in real estate. In his analysis, Migozzi (2019, p. 16) presents various corresponding empirical examples of these processes in the South African domestic housing market. The financialization of housing indicators in South Africa include the “expansion of mortgages, the development of securitization, the rise of real estate and investment trusts (REITs), and corporate landlordism” (Migozzi, 2019, p. 16). These developments increasingly redefine South African real estate as a tradable asset linked to fictitious capital on domestic and global capital markets. Furthermore, the increasing but still limited presence of institutional investors, REITs (mostly in the commercial property market, not residential) and other corporate landlords as the *intensive* expansion of IBC in the real estate market has to be closely monitored as a potential avenue for further financialization. The restructuring of capital towards these more concentrated forms of ownership under large investment corporations could impact the already difficult availability of affordable housing in South Africa even further. The following sections will provide additional detail on those developments. Towards the end of this section, the new insights will be added to the visual mapping, including some of the linkages with the previously discussed general characteristics of financialization. Moreover, the implications for inequality outcomes will be discussed similarly to the previous chapter.

a. Commodification of housing

The foundation for many financialization dynamics in the South African housing market can be located in the changing policies around homeownership, as presented in the housing in South Africa section earlier. While there were various early occurrences of commodification of publicly owned houses in the mid 1980s, as outlined by Mabin and Parnell (1983, p. 148), these became increasingly linked to financialization processes with the internationalization and liberalization of the South African economy in the recent decades as the ANC adopted many neoliberal principles, which were already widely spread in the Anglo-Saxon regions and aimed at reducing poverty and welfare spending by increasing homeownership. Giving households a real estate asset or subsidizing its purchase was a preferred policy option by many administrations of the Global North towards the end of the last century. This can be broadly linked to the notion of asset-based welfare as a substitute for governmental welfare spending and to reduce poverty rates. This policy objective only found its way into the South African administration towards the mid-2000s when terms such as “climbing the housing ladder” and financed homeownership were introduced to their strategic documents (Marais & Cloete,

2015, p. 263). This shows one of the changing dynamics of the governmental approach to regulating and using the housing market to achieve social welfare and economic outcomes. The prominent role of the financial sector was also crucial to the formulation and logic behind those housing policies (Isaacs, 2018, p. 300). It further connects to the Marxist literature on housing and its role in increasing aggregate demand and the continued circulation of capital in a secondary circuit and the creation of new asset owners in low-income groups of society and the dependence on market coordinating mechanisms for social welfare (Harvey, 2012, p. 48; Rolnik, 2013, p. 1061).

It is apparent that government policy aimed at the expansion of the mortgage market to low-income households was only partially successful when looking at the remaining housing gap and prevalence of informal housing. Nevertheless, the privatization of many publicly owned and newly constructed housing units and subsidies for mortgages allowed the integration of new parts of the population into financial markets through debt-financed real estate. While this was an extensive expansion of the IBC market into new segments, many of the middle- and upper-income groups were already part of a private finance-based mortgage market. A progressive deepening of financial markets after the democratic transition meant the linkage of South African economic performance, interest rates, domestic prices, and corporates to developments in rich economies of the Global North (Andreoni, Robb, & van Huellen, 2021, p. 224). This clearly shows the growing intensification of international capital markets and fictitious capital highlighted by Fine (2013, p. 48) in a country located in the Global South. As previously shown, South Africa switched to being a net-borrower of international finance in 2005. The increasing role of international capital inflows, often short-term, and the policies which further promoted this as part of IFS limited the ability for both local productive investments and kept mortgage interest rates high. This process of privatization of low-income housing, the increasing linkage to financial markets and the high-interest rates due to fiscal constraints can be summarised as characteristics of financialization which directly impact the housing market. The inflow of foreign capital also meant private overseas investors and corporations increasingly commodifying the South African housing market with a preference for pure investment returns above any residential value of the assets (Ntuli & Akinsomi, 2017, p. 385). The commodification and, therefore, financialization of housing in South Africa was coined by the phases of housing privatization as outlined earlier and policy-induced expansion of private housing finance (Rolnik, 2013; Migozzi, 2019, p. 4). This corresponds with various

characteristics of financialization, as presented earlier, such as an expansion of financial markets and the reliance upon their coordination and performance, and the penetration of IBC into a new social sphere of low- and middle-income households (Powell, 2018, p. 3).

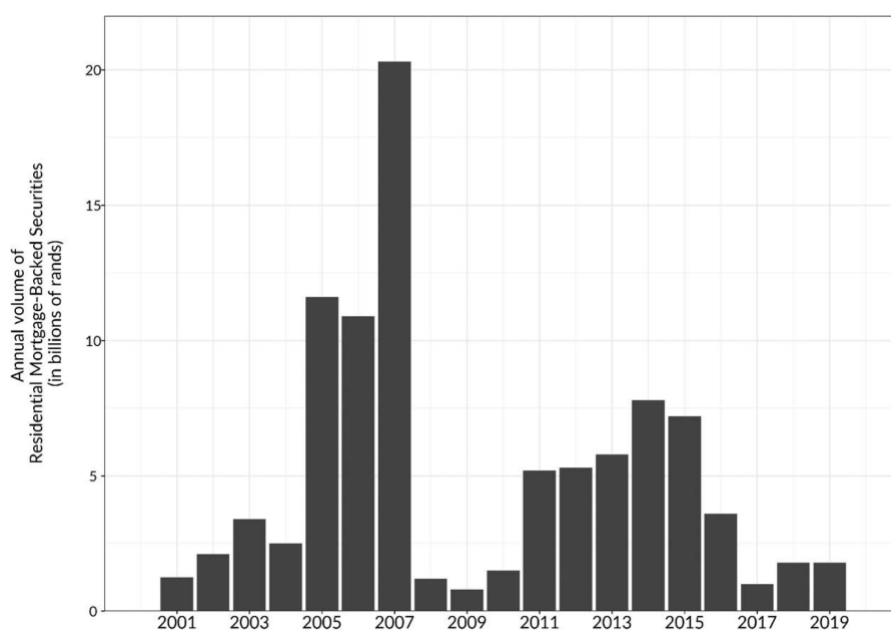
b. Securitization

The other characteristic that would classify a housing market as financially commodified would be the broad-based securitization of mortgages. This represents a process of financialization backed by growing financial innovation, as outlined earlier (Powell, 2018, p. 3). As shown in chapter 3, through financial innovations such as securitization, real estate as an asset class can be traded in a more liquid manner and allows easier capital switching from primary to secondary circuits (Aalbers, 2008, p. 149; Harvey, 2012, p. 6). It further allows for the increasing use of fictitious capital in the space of real estate financing that heavily depends on speculative investments (Harvey, 2012, p. 36). Gotham (2009, p. 368) further argues, that the liquification of real estate through securitization is an important feature of modern capitalism which emphasizes “the conflictual, contested and deeply contradictory nature of uneven geographical development”. It further expands the arena of capitalist competition and class competition.

In a 2009 working paper of the IMF, Goswami, Long and Jobst (2009, pp. 20-21) show that since the broad-based deregulation of securitization in South Africa in 2001, the value of mortgages in a secondary market has increased by more than 60 per cent annually. They argue that South Africa, therefore, is one of the most active securitization markets of the Global South, with residential mortgages being the most dominant respective asset class. The paper links this steep increase in the use of such financial innovation to the deregulation and removal of constraints on securitization activity and the increasing pressure on commercial banks to compensate for lacking growth of consumer credit and mortgage growth. Due to a high concentration of securitization within a few specific banks, the IMF research group identifies the lack of investor diversity as a risk. Furthermore, these banks use securitization to increase the overall quantity of credit supply without affecting the prices of existing ones. Isaacs (2018, pp. 317-318) shows that an initial secondary mortgage market initially emerged in 2001 with a private venture named South African Home Loans (SAHL) supported by JP Morgan and Standard Bank. The market for this expanded in the following 6 years to relatively high levels for an economy of the Global South, as outlined earlier. This development can be seen as a

growth in more fictitious forms of capital through the use of financial innovation that increases the credit and financial markets without any adjustments in the debt conditions, productive economy or built environment. (Harvey, 2012, p. 36) Nevertheless, Migozzi (2019, pp. 7-8) argues that in South Africa, while the scope of mortgages traded on secondary markets is increasing, the phenomenon still remains relatively limited. Despite the previously mentioned government-supported securitization for some low-income mortgages, the process remains mainly exclusive for higher-income sections of the South African housing market in urban areas. Even at the height of the housing bubble in 2007, Newman (2014, p. 71) accounts only for 3% of mortgages being securitised. See the illustration of their annual volume below. Furthermore, the innovation in mortgage products in South Africa remained mostly limited to bank-based loans. (Marais & Cloete, 2017, p. 29)

Figure 7: Residential mortgage-backed securities in South Africa, 2001–2019 (p.a.)



Graph by Migozzi (2019, p. 5) based on data from the South African Securitization Forum, 2019.

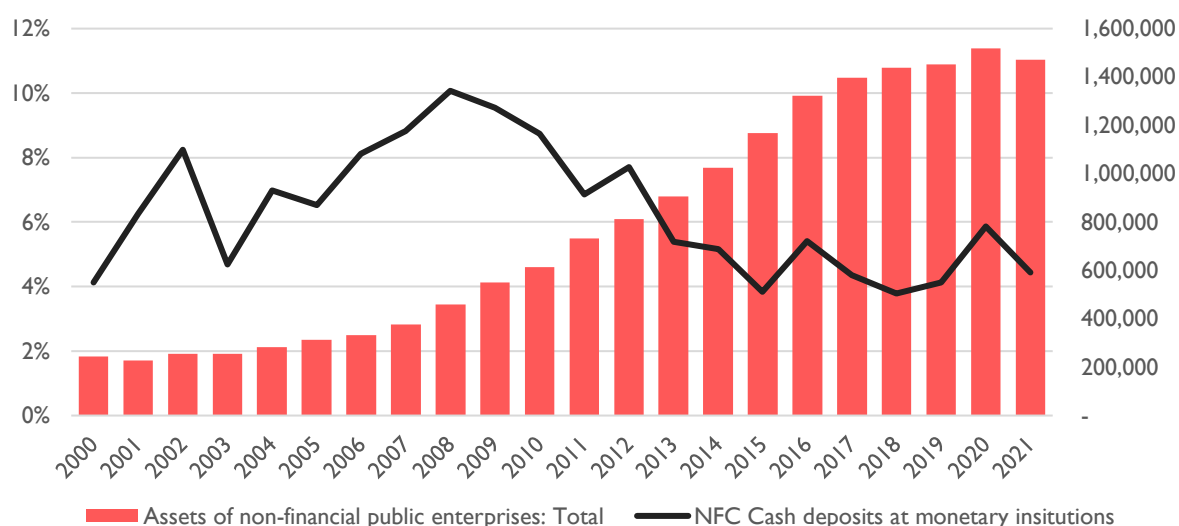
c. NFC investment behaviour

Chapter 4.3 has already provided some background on the general trend of internationalization, changing sectoral make-up of the economy, global capital flows and corporate financialization in South Africa. This section will link these developments to empirical trends in the NFC investment behaviour and, ultimately, the respective impact on the mortgage and housing market. While some of these trends discussed are only observable

during specific time periods, they still represent a general trend of capital entering secondary circuits of circulation.

As shown in the chapter on the economic history of South Africa, companies at the heart of the MEC are highly significant to the overall trajectory of the domestic economy, and their relative role in the process of financialization is significant. Beyond their direct activities, the profits generated within these sectors have major implications for the availability of capital internally and the linkage to international financial markets. Beginning in the early 2000s, South African NFCs were increasingly holding large sums of excess cash and liquid financial assets, which can be summarized as *over-capitalization*. These assets are often channelled into bank deposits which in turn contribute to the growth of liquid financial assets. This signifies that banks are facilitating consumer credit and mortgage loan extensions, which leads to consumption-credit-dependent growth models and house price inflation (Karwowski, 2012, pp. 1-2, 20-23). There is quite strong empirical evidence of this phenomenon in South Africa in the years leading up to the GFC and the respective housing price bubble, which will be discussed in a later chapter. As the figure shows below, between 2003 and 2008, there was a strong increase in NFC cash deposits at monetary institutions, which peaked at a value of around 10% of total assets.

Figure 8: NFC cash deposits as a percentage of total assets and overall growth of assets



Author's illustration based on SARB data (2022)

Similar evidence of an increasing excess cash accumulation is presented by Karwowski (2012, pp. 23-24; 2018, pp. 6-7) regarding a micro-analysis of the top 20 companies listed on the

Johannesburg Stock Exchange and a study of SARB data. These developments are in many ways problematic as the increasing availability of private household credits in an inflating housing market leads individuals to use their increasing property value to broaden their credit-based consumption. This dynamic shows to expose households to the deeply problematic impacts of the GFC, particularly in the US, where consumption was artificially increased based on an unstable housing bubble. This can be identified as a problematic process of unfolding and deepening financialization. As excess cash of NFCs is deposited at banks, this, in turn, increases the availability of private credits and mortgages and therefore increases property prices and promotes consumption-based economic growth. This NFC investment behaviour-induced dynamic, therefore, tends to crowd out opportunities for productive investments and respective employment in the real economy. (Karwowski, 2012, pp. 6, 17) See the figure below, where Karwowski illustrates this process conceptually.

Figure 9: The concept of over-capitalization: Origins, reasons, and consequences

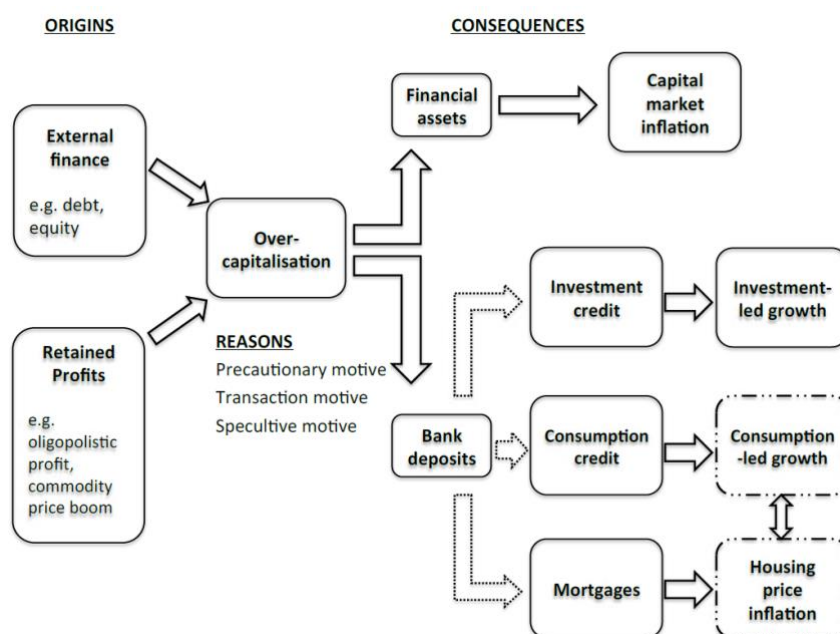


Figure by Karwowski (2012, p. 6)

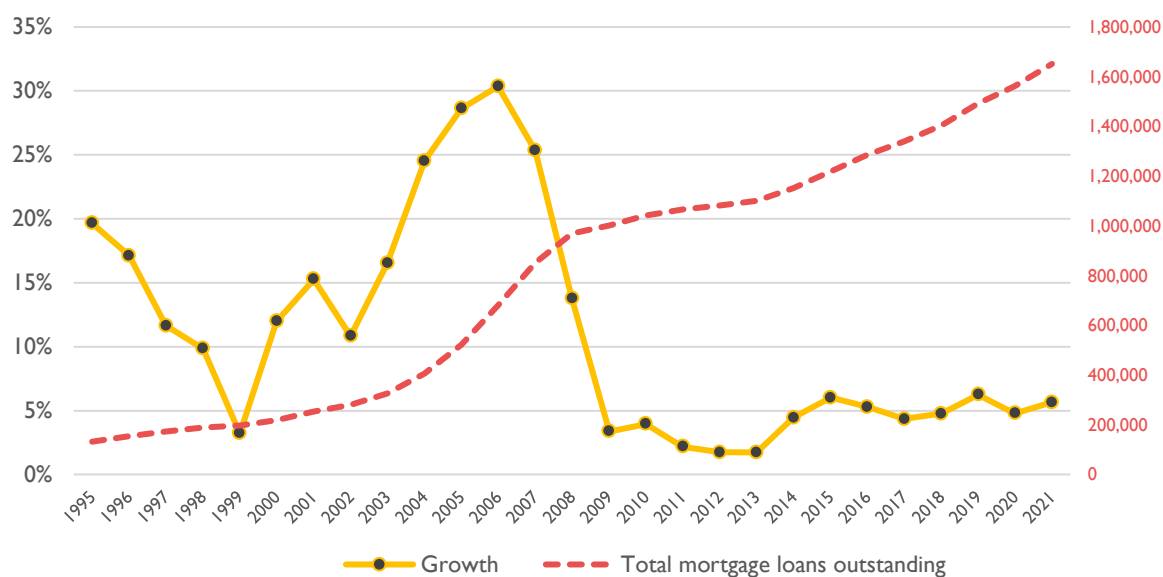
Towards 1999, the increasing levels of excess cash by NFCs in South Africa were highlighted by the fact that it overtook households in their share of bank deposits, becoming the banks' biggest debtor. This is a typical sign of financialization, where NFCs increase their role in the financial market, and households change from being net-depositor to -creditor. This follows the theoretical argument regarding the process of financialization by Ashman and Fine (2013, p. 156), where financial assets, especially those of speculative nature, replace productive

investment. Beyond the developments of NFC investments and household credits, there has also been a relative increase in both credits for and deposits of the FIRE industry, with manufacturing, transport and service industries receiving merely a fifth of total loans. The total lending to households and the FIRE industry has increased from around 16% in 1997 to approximately 75% at the peak of overcapitalization and remains at a high level of around 70% in 2016. The shift of credit reception by these industries, housing purchases, and consumption credits instead of the real economy and NFCs clearly show an economy shifting to higher levels of financialization in South Africa. (Karwowski, 2018, p. 17)

This chapter illustrated how the processes of financialization, de-industrialization and the accumulation of excess cash held by NFCs could lead to an expansion of fictitious forms of capital to the detriment of the productive economy. It further illustrates a clear pathway for capital switching from surplus in a primary productive circuit into a secondary one where real estate plays a crucial role in its absorption (Harvey, 2012, pp. 5, 42; Aalbers, 2008, p. 149). After having discussed the linkages between corporate financialization, de-industrialization, mortgage availability, and housing price inflation, the next chapter will specifically look at the empirical developments in the South African mortgage market to further advance the examination of the financialization of housing in South Africa.

d. Mortgage debt

Both previously discussed aspects of NFC (excess cash deposits and increasing debt levels of South African households) have already shown linkages to the mortgage market and, therefore, link different characteristics of financialization to housing. Regarding the relevance of the financialization of the everyday, the majority of credits of banks to households are mortgages. The previously discussed over-capitalization of NFCs has pushed banks in South Africa to issue more mortgage extensions which peaked at around 50% of all loans issued in 2009-10. This increase also correlated with an overall increase in mortgage lending to GDP and has been impacted additionally by foreign capital inflows toward the banking sector (Newman, 2014, p. 48). The share of mortgage debt to GDP has fallen significantly in the period after its peak but remains at 30.6% (CAHF, 2016, p. 215), still relatively high compared to other economies of the Global South such as Brazil (9.8%), India (5.5%), and China (18%) (Migozzi, 2019, p. 5). The figure below illustrates the expansion of the mortgage market with huge annual mortgage advance growth rates in the years leading up to 2009/2010.

Figure 10: Growth in mortgage advances & total mortgage debt in South Africa (m Rand)

The author's own illustration from SARB data (2022)

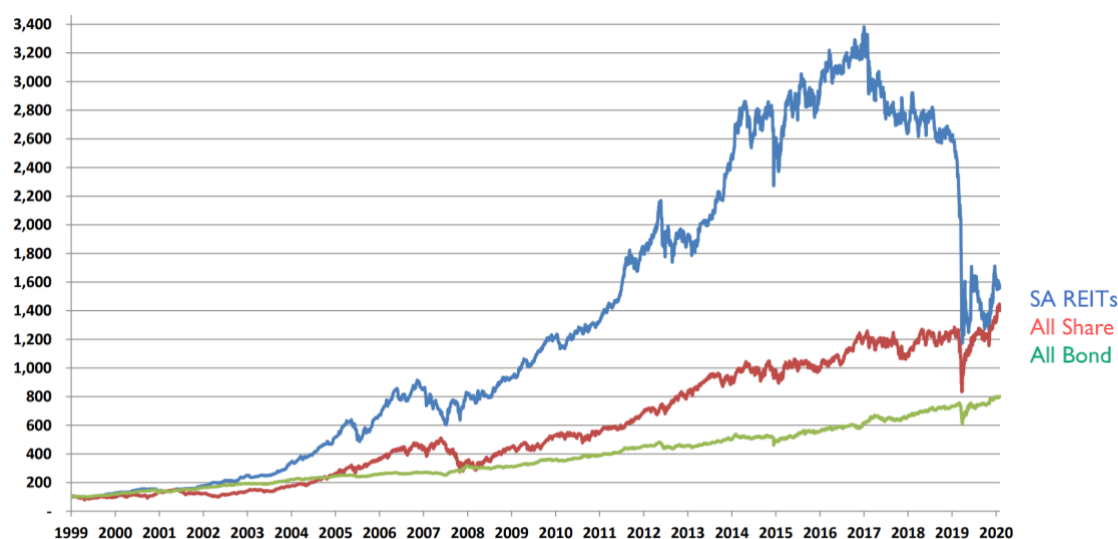
The data shows a steep increase in mortgage advances during the period of over-capitalization of South African NFCs shown in the previous section, therefore further confirming Karwowski's argument and the causal relationship between NFCs and the mortgage market. Beyond the increase in mortgage advances, a similar trend has been shown for newly issued mortgages by Migozzi (2019, p. 6) during the same period. This expansion of the mortgage market directly relates to inflationary price developments in the housing market, which will be shown in chapter 4.4 (f) (Karwowski, 2012, p. 25). Mortgage debt as percentage of GDP increased from around 18% in 1975 to 31% at its peak in 2007 (Isaacs, 2018, p. 293). These developments also link to the extension of consumption using increasing debt levels across society, with mortgages playing a critical as Karwowski's illustration showed at a conceptual level earlier. While mortgages only make up around 4-5% of all loans in 2016, their relative size amounts to over 60% of overall debt which shows the concentration of high loans in a small group of borrowers and while mortgages were declining after 2008, short-term unsecured loans doubled in both market size and number between 2008 and 2016 (Isaacs, 2018, pp. 292-294). For capital to continue to circulate, mortgage extensions can be used as an effective instrument to increase aggregate demand as they generally increase housing asset prices which in turn increase consumption levels (Harvey, 2012, p. 48; Aalbers & Christophers, 2014, p. 375). A feature of the South African mortgage market is the lack of affordability of entry level mortgages for average low and middle income earners. The mortgages granted to the middle income group has especially dropped between 2008 and

2015 from 23% to 6% (Isaacs, 2018, p. 303). The social consequences of this limited and deteriorating access will be discussed in the next chapter.

e. Corporate landlordism

A key factor regarding the level of financialization of housing in any given context is the increasing presence of financial and corporate actors in the housing market. Harvey (2012, pp. 45-47) argues that financial institutions and corporate developers drive the expansion of fictitious forms of capital in the property market. As banks lend money to developers, they can produce or acquire housing assets which are then sold to individual buyers. These buyers are dependent on the credit system, which is also controlled by commercial banks. This process, therefore, allows to a certain extent, financial institutions to both create demand and supply in the property market by using fictitious capital. This is facilitated by an alliance of similar interests between urban developers and financial institutions, which often represent uneven class relations.

Regarding the housing market in South Africa, the key emerging actors to be observed are REITs and other corporate companies that manage, develop, and trade income-generating property and link profits to tradable corporate shares and assets. The characteristics of REITs both allow for international investors to easily invest in foreign housing markets and often allow for liquid real estate investments in the forms of highly liquid assets discussed under securitization earlier (Ntuli & Akinsomi, 2017, pp. 356-366). In 2016, most South African REITs consisted of retail real estate (51%), and office buildings (27%) with only about 3% being residential properties (compared to their 66% share of the total market). The limiting factors for such small percentages of residential properties are argued to be their relatively lower performance, the nature of residential real estate in South Africa and the relatively low maturity of domestic REITs overall (Nurick, Boyle, Allen, Morris, & Potgieter, 2018, p. 63). The figure below illustrates the increasing returns being generated by South African listed REITs since the beginning of the 2000s compared to the indexes of other shares, which here refers mostly to the largest share of commercial REITS and not residential. This might imply a growth of overall REITs returns, but if those developments might trigger a growth in residential REITs has to be monitored and investigated by further research.

Figure 11: Total share return indexes REITs versus others (indexed in 1999)

Graph from *Monthly Chart Book 2021* by the South African REIT Association (2022, p. 3)

Beyond the rise of REIT asset values, Migozzi (2019, p. 9) argues that there has been an increasing presence of other corporate landlords or in new segments of society in South Africa. Corporate presence in the rental housing market outside the previously White-only areas represents a shift in the housing market as this segment of real estate used to be perceived as too risky and often dependent on state housing. He further argues that this development is closely linked to the past house price boom leading up to the recession, which then, through decreasing wages and unemployment, created a new rental housing demand. This housing segment is often closely associated with the Black middle-income group, which did not make the high-income threshold for the mortgage market. Corporate landlords in South Africa prefer to build gated communities with multi-story apartment houses for families. Compared to many European corporate developers, these complexes are often not built upon distressed properties but rather developed from scratch in unused suburban areas. This can be seen as highly standardized real estate investments only motivated by profit maximization and risk avoidance, which stands in partial contrast with individual preferences in creating a liveable home instead of an asset.

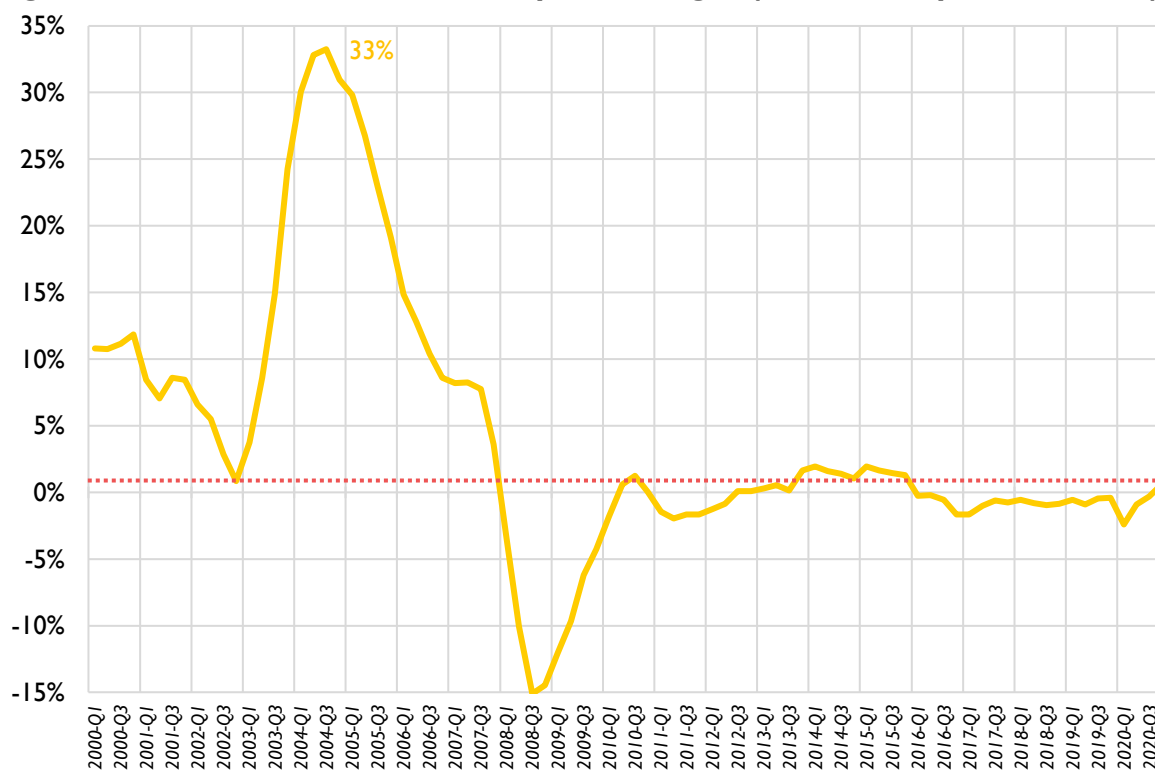
Migozzi (2019, p. 17) further argues that this sprawl of corporate landlords in South Africa, specifically the Cape Town housing market, is directly linked to the state's withdrawal from the rental market. The broad usage of credit scores, both for mortgage allocation and tenant selection, allows such corporate developers to manage their risk levels closely. This practice leads to a process of social sorting which repeats past patterns of racial segregation due to

location and racially linked categorizations along with financial and economic factors. (Migozzi, 2019, p. 2) The impact of allowing such sorting on inequality will be discussed in the next chapters.

f. Housing market

The past sections have gradually introduced various financialization-related processes that ultimately relate to housing in South Africa. The paper, therefore, provided the necessary background to look at the empirical developments of housing prices in the South African market and link those to the financialization of housing processes. As outlined at the beginning of this chapter, the increasing absorption of capital into housing collateral is one of the characteristics of financialization (Powell, 2018, pp. 7-8). Harvey (2012, pp. 5, 42) and Aalbers (2008, p. 149) both argue that this absorption equals capital switching into a secondary circuit of circulation in search of additional profits. To illustrate this in the South African context, the figures below provide the real estate price developments in real annual growth rates since 2000.

Figure 12: South African real estate price changes (real values, p.a. 2000-2020)



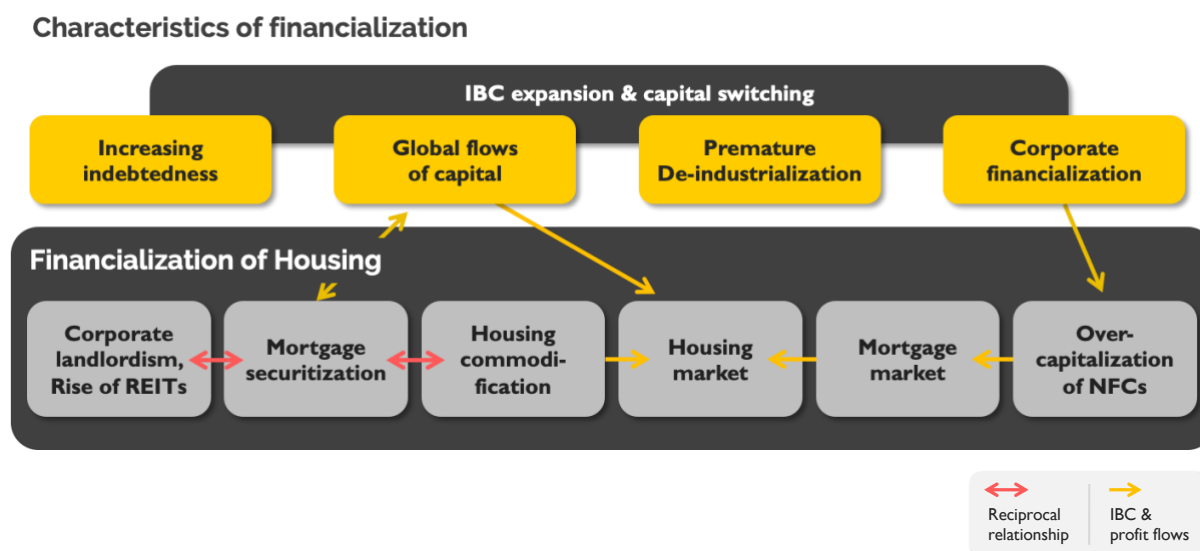
Data by Bank for International Settlements (2022), which is based on the FNB house price index

This housing price data show a clear indication of house price inflation in the early 2000s. Karwowski (2012, p. 18) argues that this is linked to the abundance of mortgage credits and correlates with the previously discussed over-capitalization of NFCs. At its peak in 2004 (highlighted in the graph), housing price inflation stood at over 33% in real growth. The drop in the years 2008-2009 further correlates with the GFC and the downfall of the mortgage bubble in the US. Only after 2010 did housing prices seem to have stabilized relative to the earlier extreme fluctuations. (Karwowski, 2018, p. 6) At the height of the housing boom prices, larger properties increased their real value by 188%, which was not matched by the “affordable” segment which will be discussed in the next section (Isaacs, 2018, p. 316). Overall, the housing price bubble was paralleled by an expansion of mortgage debt and matches the description of speculative growth and debt-based expansion of consumption through a secondary capital circuit due to house price asset inflation, as presented earlier. Harvey (2012, p. 34) argues that booms in housing markets are linked to speculative flows of fictitious capital, which triggers various destabilizing effects on the economy as real estate becomes a more significant part of GDP.

Nevertheless, Powell (2018, p. 1) highlights the importance of differentiating between cyclical processes of the capitalist system from more fundamental systemic changes as part of financialization. The sheer scope of the South African housing bubble in 2004 and the subsequent decline seem to exhibit an unprecedented shift in the domestic property market and therefore implies some systemic changes in the role of IBC in South Africa. More recently, the COVID pandemic and attendant economic lockdown have had strongly negative effects on the real estate, alongside similar effects on the economy and wages at large. While the housing transaction activity was already declining pre-COVID, the number of new homeowners has been especially low with almost 10% less in 2020 than 2019 despite relatively low interest rates during the pandemic (CAHF, 2022, p. 1). The impact of a housing bubble, the limited ability of the market to provide affordable housing, and the links of the housing market to inequalities will be discussed in the following sections.

g. Model part two: Aspects of housing financialization

The various characteristics of housing financialization discussed across the past sections combined with the elements from the previous section allow the housing specific extension of the visual mapping presented in chapter 4.3 (e):



General financialization processes presented in section 4.3 link to the characteristics of housing financialization in South Africa in a multitude of ways. Global flows of capital, as well as the growth of the financial industry, both allow IBC to commodify the housing sector by absorbing surpluses from other areas into the housing and mortgage market. This is a development that follows Aalbers' (2016, pp. 5-7) description of the financialization of housing process where international capital uses real estate markets as the outlet for its increasing investment demand. This is underpinned by neoliberal policies, which allowed for increasing securitization and liberal short-term capital inflows, which promoted housing asset price inflations and the spread of fictitious capital in the housing market. Moreover, while still limited but certainly increasing, investments into residential REITs and mortgage securities in South Africa should be closely monitored when looking at future potential avenues of increased financialization of housing (Ntuli & Akinsomi, 2017, p. 385). If this trend continues, the real estate market becomes significantly internationalized and characterized by aims of high capital gains and speculative investments delinked from the original property-based debt conditions, especially when mortgages are securitized. Furthermore, such corporate landlords also allow for the market to become increasingly concentrated amongst fewer actors with increasing an individual influence. The shift in the relative role of the financial industry and the integration into global financial markets have reduced the country's ability and resources to achieve much-needed structural transformation towards economic growth, broad social upliftment, and redistribution (Andreoni, Robb, & van Huellen, 2021, p. 231) It also further limits the prospects of reducing inequalities through broad-based employment opportunities for unskilled workers by distributing surplus from labour income to investment profits.

Furthermore, the increasing commodification and, therefore, financialization of housing in South Africa was coined by the phases of housing privatization and policy-induced expansion of private housing finance as outlined above (Rolnik, 2013; Migozzi, 2019, p. 4). This corresponds with various characteristics of financialization, such as the expansion of financial markets and the reliance upon their coordination and performance, and the penetration of IBC into a new social sphere of low- and middle-income households (Powell, 2018, p. 3). Privatization of public housing has, in turn, enabled now privately owned real estate to be traded and commodified as well as linked to financial markets through mortgage credits. This has implications for the availability and distribution of housing, especially in the lower-income segment. Commodified public housing in South Africa aimed at reducing the public housing programme's maintenance cost and was supposed to enable private individuals to benefit from a booming housing market. Practically, these benefits were challenged by the early 2004-2008 housing bubble-induced market instability and the economic conditions of lower-income households. The increasing privatization of parts of the public housing stock and the promotion of private housing finance through policy has enabled the expansion of IBC both intensively as well as extensively into new market segments. Another crucial linkage exists between NFC investment behaviour and the probability of new housing bubbles and a rapid expansion of the mortgage market, which would further destabilize the market, as shown by Karwowski (2018, p. 17). The connection between corporate investments, corporate financialization and the mortgage market illustrates a direct pathway for the economy to become more financialized, with housing playing a prominent role in this process. It further connects to the Marxist literature on housing and its role in increasing aggregate demand and the continued circulation of capital in a secondary circuit, creating new asset owners in low-income groups of society and exchange welfare dependence for market coordinating mechanisms (Harvey, 2012, p. 48; Rolnik, 2013, p. 1061).

Besides these factors which constitute financialization dynamics in the South African housing market, there are still various aspects which make the domestic housing market less financialized than in other countries. For example, the limited scope of the formal housing market and the therefore limited role of mortgage credits and their potential for securitization would be one constraining factor. Another factor is the relatively small percentage of residential REITs within the South African housing market which also limits the liquidity of the housing market. Another aspect is the highly specific investment of foreign buyers of housing

to certain areas which has little impact compared to the total housing stock (Davids, 2023, pp. 105-106).

5. Inequality in the context of housing financialization in South Africa

The previous chapters have provided an overview of the issue of housing in South Africa, the linkages between evidence of general financialization processes and housing, and have outlined to some extent the implications for inequality outcomes related to these processes. This chapter will now discuss the specific implication of an increasingly financialized housing market in South Africa for wealth and income inequality trajectories. To connect the discussion to the various interrelated elements presented earlier, it will provide the final iteration of the visual mapping to structure this analysis in the next section.

Chapter 3 has already shown how housing from a Marxist perspective represents more than pure physical objects involved in a financial exchange. Real estate is a multi-faceted social relation between classes and is, therefore, crucial to the social reproduction of uneven class relations (Aalbers & Christophers, 2014, pp. 377-381). According to Fine (2012, p. 66), social reproduction through housing goes much beyond state policy but includes various elements of individuals' lives, political views and more. The housing market, with its tendency of house price inflation, is a crucial process part of the reproduction of uneven development and inequalities in financialized capitalism (Aalbers, 2016, p. 142). In the South African case, this social reproduction of extreme inequalities can be illustrated in the uneven wealth distributions regarding property ownership, as the table below illustrates.

Figure 13: Share of total assets held by wealth group by asset class 2017

Table 3: Share of total assets held by wealth group by asset class, 2017

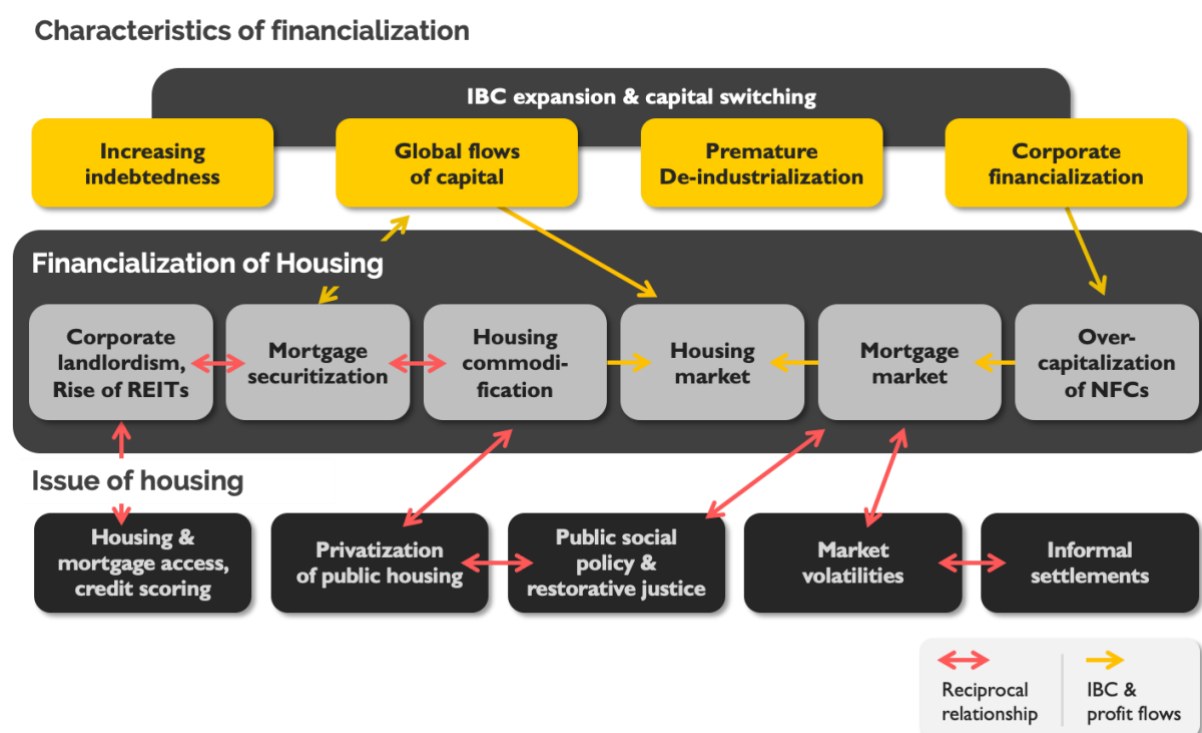
	Currency	Business assets	Housing	Pensions / life insurance	Bonds & Stock
Bottom 90% (p0p90)	37.3%	40.4%	41.2%	36.2%	0.2%
Bottom 50% (p0p50)	9.7%	1.4%	14.0%	5.3%	0.0%
Middle 40% (p50p90)	27.7%	39.1%	27.2%	30.9%	0.2%
Top 10% (p90p100)	62.7%	59.6%	58.8%	63.8%	99.8%
Top 1% (p99p100)	10.6%	41.9%	27.8%	14.1%	95.2%
Top 0.01% (p99.99p100)	1.5%	13.4%	8.5%	2.1%	62.7%
% of total assets	0.6%	3.6%	28.8%	32.5%	34.6%

Table and data by Chatterjee, Czajka and Gethin (2021, p. 26) (red highlight added by author)

As the table shows, the top 1% wealth group owned 27.8% of all housing assets and 95.2% of all bonds and stocks. This represents an exclusion of low-income groups from wealth accumulation through asset ownership and a high concentration of wealth at the top end, the implications of which in the context of financialization will be discussed in the following sections (Chatterjee, Czajka, & Gethin, 2021, p. 9). Similarly, in 2010 the share of total investment income of the top 1% was 88% and 99% for the top 10% of the income bracket (Isaacs, 2018, p. 323). This wealth concentration is further intensified by the South African taxation policies, which continue to rely heavily on wage labour instead of wealth-based models (Chatterjee, Czajka, & Gethin, 2021, pp. 1-2).

a. Model part three: Financialization of housing and inequality in South Africa

To discuss the issue of inequality relative to housing financialization, the model below connects the various elements discussed in the previous chapters to the characteristics of the issue of housing in South Africa to allow for a holistic discussion of interconnected elements:



The following sections will link the various elements presented in the visual mapping to inequality trajectories in South Africa. The model allows for the discussion of specific reciprocal relationships between financialization, housing and inequality while also including social-political elements related to housing. It also allows for further research to be undertaken either to expand the mapping or to zoom into specific linkages.

b. Housing social policy and privatization

The first reciprocal relationship exists between the public housing policies and the financialization of housing. As Fine (2016, p. 15) argues, South Africa has an extensive social security system relative to its per capita income. This is a fact that can be partially explained due to its historical legacy of Apartheid. However, at the same time, the post-apartheid trajectory of embracing a neoliberal policy model also created its own dysfunctions on top of the existing broad-based inequalities, which continue to motivate state intervention. Furthermore, as earlier sections have shown, the same period was defined by an ever-bigger presence of financialization processes in the South African economy with specific inequality implications. To discuss the case of housing financialization, we, therefore, have to look at the intersection of the ideology behind the housing policies chosen and the respective inequality outcomes in the context of these more significant developments.

The general ideology behind the ANC's housing policies since the democratic transition has been heavily oriented towards increasing homeownership levels across society to manage inequalities and achieve restorative justice through asset-based welfare (Seekings & Nattrass, 2015, p. 182). This seems to be valid for both the ability of middle-income households to achieve social security and less state dependence through owning real estate and social welfare policies linked to alleviating poverty. Ownership promotion and the ability to achieve financial independence by climbing the housing ladder seem to be corresponding with neoliberal ideas of private housing markets as the idealized operating model for meeting the population's housing demand. While this paper comments on the ideological connection between government's policies and homeownership targets, it will not provide a quantitative empirical analysis of the performance of these in achieving broad-based homeownership. Nevertheless, at a socio-political level, the degree of asset-based wealth is undeniably significant when it comes to the material conditions of individuals and, consequently, their interpretation of the need of governments in their role of providing social welfare (Ansell, 2014, p. 384). An example of such a policy approach that heavily focuses on private financial sector involvement is the Finance Linked Individual Subsidy Program (FLISP) implemented in 2006. It aimed at increasing the role of financial institutions at the middle-lower end of the income segment by facilitating privately financed homeownership. It provides mortgage subsidies to middle-income households that earn a monthly income between 3'000 and 15'000 Rand (Tomlinson,

2015, p. 15). The classification of such an “affordable” market segment is discussed by Butcher (2016, p. 143), who argues that the definition is a continued source of political debate where boundaries are shifting depending on the housing market situation especially in the light of the 2008 housing bubble in South Africa. This market segment further followed a dual logic of being both financially profitable and developmental due to the need of state subsidies. Empirically, achieving credit lending to these or even lower-income households has been way below the expectations and objectives of social welfare policies, which questions the effectiveness of the approaches heavily reliant on private sector involvement, as the next section will show (Tomlinson, 2007, p. 78). The continued reliance on the state to provide housing is shown by recent numbers which indicate that in June 2021 around 31% or about 2 million houses of the total housing stock were government-subsidized (CAHF, 2022, p. 5). While the percentage seems very high, the absolute number shows the small scale of the formal housing market in South Africa relative to its total population nearing 60 million.

Policies such as the FLISP have benefitted the financial sector by allowing publicly subsidised loans to households in new market segments. This can be argued to have further fuelled financialization through the avenue of policy-induced expansion of mortgages with limited effects on housing access. The outcomes of this also included the increasing commodification of low-income houses and the creation of new asset owners in low-income segments of society. As the government heavily favoured the involvement of private actors, this increasing commodification of the housing market was also accompanied by significant public spending benefiting private developers and creating a basis for a more liberal future housing market with new investment opportunities in low-income segments (Seekings & Nicoli, 2015, p. 182). This places South Africa in parallel to a global trajectory of national housing models being increasingly integrated into global financial markets, which has also been illustrated by growing overall household debt levels in South Africa. (Powell, 2018, p. 7) It is also important to note that the implementation of neoliberal policies, also in the space of housing, often do not follow a neoliberal master plan or a respective explicit objective of this outcome. It is often a summary of multiple “ad-hoc” decisions of governments which aim at implementing practical solutions which conceal long-term neoliberal tendencies and enablers for financialization (Byrne & Norris, 2022, pp. 182, 193).

Despite a solid commitment to creating individual property owners directly and promoting mortgage access to low-income groups by the public authorities, the gap in housing delivery has been increasing, and mortgage access through banks remains highly exclusive, as the next section will show. The strong involvement of private actors might have disproportionately benefited financial institutions by reducing their investment risks in low-income housing segments in cases where they were backed by government securities. It can be argued that this strong drive for individual ownership dominated the housing market might allow for increasing commodification and financialization of the real estate market in the future as privatized governmental housing unavoidably becomes tradable financial assets. Furthermore, through fiscal and regulatory policy the state plays an important role in the liquification of housing and the spread of financialization dynamics (Gotham, 2009, p. 360). As discussed above, this might allow international capital to expand its influence further within the South African economy as real estate is seen as an ideal investment outlet and a new frontier for growing returns from capital markets. The state, therefore, played a major role in spreading IBC extensively and the dependency on financial markets into new segments of the housing market in South Africa (Migozzi, 2019, p. 17). Combined with the overall favourable environment for the expansion of the financial industry and respective decline in manufacturing, it can be seen as a major enabler for financialization in South Africa.

The aim of increasing homeownership to improve the ability of households to climb the housing ladder in an environment of instability due to a financialized economy and housing market might produce the opposite effects. Marais and Cloete (2017, pp. 28-29) argue that the volatility of interest rates stemming from economic instability has been the most significant issue linked to housing policies. This issue is being exacerbated by the drive toward homeownership through the use of financial institutions. The growing backlog and low mortgage delivery for low-income households, despite the broad promotion of private sector involvement and neoliberal policies, shows a deep tension between the use of free markets to achieve social welfare outcomes and the potential proliferation of negative effects of this in the light of financialization dynamics. This also relates to the ability of social policies in the context of housing to reduce inequalities which were severely limited by those policy choices and raises the question of more effective approaches regarding their redistributive objectives. Furthermore, the privatization of public houses as part of a restorative justice approach outlined in chapter 4.2 (b) has additional implications for inequality outcomes. The transfer to

private ownership shifts the responsibility of housing away from public institutions to private individuals, who might not be sufficiently equipped financially to sustain this responsibility, especially in the face of heightened economic volatility. This can often lead to emergency real estate sales and re-emergence of the lack of housing issue for households and presents an opportunity for profit-oriented investors. Furthermore, Isaacs (2018, p. 316) argues that in the lower value segment the house often has a more symbolic than asset type character, with few households wanting to leverage it. This is also exacerbated by the low resale value of RDP housing which often have a resale value half as high as the initial construction costs, which locks homeowners into this segment of the market, limiting any type of upward or even horizontal mobility. Related to this, Conley and Gifford (2006, pp. 59, 75) argue that despite the rise in homeownership levels, such developments could lead to legitimizing higher levels of inequalities. In the case of South Africa, this legitimization is particularly strong when referring to low-income households which have received a free housing asset, the loss of which can be easily blamed on individual responsibility rather than structural limitations. This is especially severe in a context of a housing bubble where new homeowners originally profited in variegated ways from rising housing prices in the early 2000s in South Africa. This development was quickly reversed with the bursting of this bubble and the following increased instability and the general effects of the GFC. This rise in individual responsibility through avenues such as privately financed homeownership, Beggs, Bryan and Rafferty (2014, p. 978) argue, can be seen as an expanding integration of individuals and households into the circuits of capital accumulation through a financialization of their everyday life. The South African housing market policies therefore closely resemble the definition of a neoliberal typology defined by Byrne and Norris (2022, p. 186) which consist of austerity politics at the macroeconomic and monetary level, the retrenchment of the welfare state and commodification of housing, and the increasing exposure of households to volatile international financial markets.

c. Limited mortgage access and variegated implications across income groups

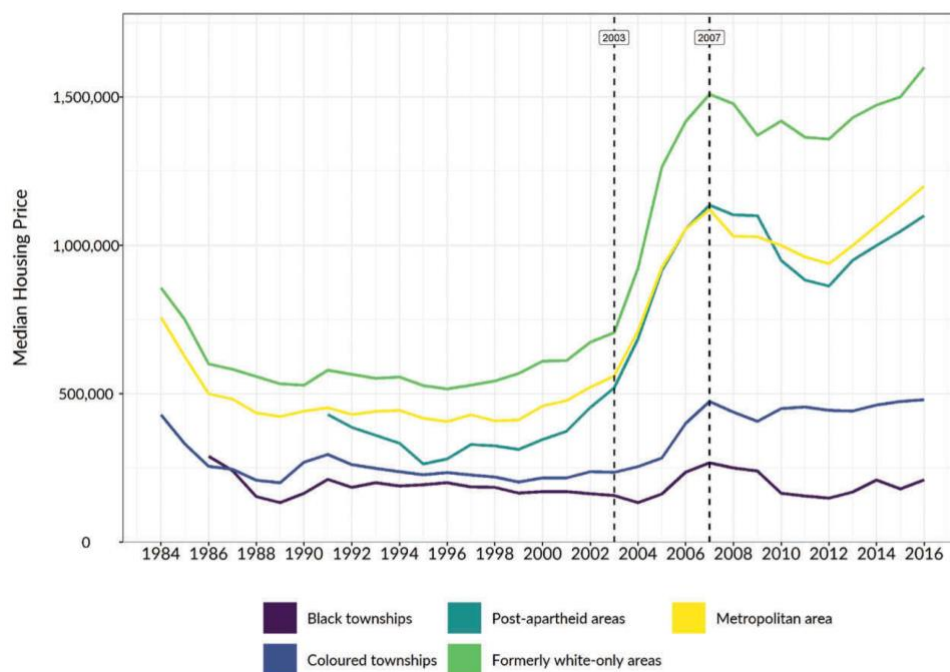
The second significant relationship exists between the previously discussed policies of homeownership promotion and restorative justice in their ability to expand housing and mortgage access. The ability to enter the formal housing market often depends on the ability to privately finance housing through financial institutions and their respective thresholds of entry. These conditions are furthermore dependent on financial markets and other

financialization of housing dynamics relevant to the South African context outlined earlier, which include housing bubbles, NFC investment behaviour, and securitization. While there has been a significant increase in mortgage debt, as shown in chapter 4.4 (d), access to mortgages in South Africa remains highly exclusive for high-income groups of society. Only a small number of mortgages are issued below the monthly income of 15'000 Rand, which therefore excludes around 80% of households (Isaacs, 2018, pp. 301-303; Migozzi, 2019, p. 7). Furthermore, most mortgages issued in 2007 were linked to properties above 350'000 Rand which primarily excludes affordable housing for low-income households. The small number of mortgages issued to lenders at the lower end of the market even decreased between 2007 and 2013. Consequently, the decrease in mortgages issued in the years of recession after the GFC shows that it disproportionately affected low-income households (Marais & Cloete, 2017, p. 29). The dynamics of financialization due to capital flows and decreasing employment pushes the affordable housing further away from the low- and middle-income households while exposing them to new vulnerabilities due to debt-driven consumption and financial integration (Isaacs, 2018, p. 326).

The exclusive access to mortgages for a minority of the population has many implications for inequality trajectories in South Africa. This is a characteristic of the South African housing market that public interventions were not able to change despite various policies and subsidy programs. This closely links to the social welfare dilemma in South Africa discussed by Chitonge and Mazibuko (2018, pp. 6-8), who explain that the origins of the social welfare system under Apartheid was exclusive to the most impoverished, which also applies to the efforts to expand private housing to low-income groups of society. Seekings and Natrass (2015, p. 164) argue that merely 28% of housing subsidies were allocated to the bottom 40% of income earners. This has to be viewed against a history of a continued system of "credit-Apartheid" where formal engagement with banks and the financial system under Apartheid was regulated based on racial factors (Isaacs, 2018, p. 289). The important role in housing regarding social reproduction of inequalities, the exclusive access to housing credit, and the dynamics of the housing market have continued and reproduced patterns of past spatial segregation created under Apartheid. The variegated impact of financialization on housing prices across different racial and income groups has reinforced and expanded existing inequalities. (Migozzi, 2019, p. 3)

The graph below exemplifies the different trajectories of housing prices across spatial and, consequently, racial categories in the second-biggest South African city of Cape Town.

Figure 14: Median housing prices in Cape Town metropolitan area (1984–2016)



Graph by Migozzi (2019, p. 5) based on data from the City of Cape Town

As shown in the graph, “in 2016, the median price in formerly white-only areas was 7.4 times higher than that of Black townships and 3.2 times that of coloured areas” (Migozzi, 2019, p. 10). This illustrates how existing racial and income inequalities based on the residential location of real estate led to different outcomes from financialization (Migozzi, 2019, p. 3). Looking at the graph, it could be argued that the lower housing price segments were less volatile. This fact, however, is closely linked to the previous argument of exclusive mortgage access, which prevents most of these households from formerly marginalized groups from accessing debt financing for their residential property through banks. From a broader affordability point of view, Isaacs (Isaacs, 2018, p. 174) argues that the appreciation of housing has led affordable housing to become less affordable (selling price is three times higher than the average income) and the owners of the lower value segment of housing have seen a slower appreciation of their asset than the upper end of the market. While large houses appreciated by 188% during the housing boom 1999-2007 the affordable category only achieved around 91% appreciation (Isaacs, 2018, p. 316).

Furthermore, as argued earlier, financial institutions and corporate landlords often perceive Black and Coloured townships as too risky for financial investments, which have been partially linked to the interest payment boycotts during the anti-Apartheid struggle (Tomlinson, 2007, p. 79). Financial institutions, therefore, repeat patterns of exclusionary housing finance access with the shifting justification from racial to risk-related reasons. A development that is not unique to the South African context. Harvey (2012, pp. 55-57) argues that similar processes continue to exclude African American populations in the United States from accessing housing credits. Similarly, the justification for such exclusionary categorizations was supposedly not race but a high-risk setting. This often led to the presence of ruthless credit companies and landlords to extract exorbitantly high-interest rates through bundling credits located in their respective urban areas. In South Africa township neighborhoods, investors see larger volumes of housing stock with lower valuation and therefore larger administrative needs and higher risk due to the resident income group. These factors, besides other transactional market failures, have limited the ability of low-income households to leverage housing as an asset and profit from growing market (Isaacs, 2018, pp. 314-316).

This can be connected to the broader theoretical argument of social reproduction from a Marxist perspective. As outlined earlier, Aalbers and Christophers (2014, p. 383) argue that the reproduction of uneven social relations through and as a result of housing is clearly broader than only class but also happens along other factors, such as in the case of mortgage access outlined above race/ethnicity at the intersection of the economic class. An intersection that could be examined in further research is the significance of gender in relation to housing and mortgage access in South Africa. The issue of racialized mortgage access, wealth distribution and profits from financial assets in a financialized housing market is exacerbated by the generational transfer of housing wealth post-mortem. Due to South Africa's colonial and Apartheid past, most households cannot rely on asset transfers from older generations as the "distribution of capital remains deeply and highly racially polarized" (Migozzi, 2019, p. 5). It, therefore, creates a strong necessity for housing finance in those groups of society. Furthermore, the lack of access to mortgages for previously marginalized populations in South Africa has been a "chicken-and-egg" situation of blame-shifting between banks and the government, questioning the value of the chosen policy approach (Tomlinson, 2007, p. 85). The previously discussed broad use of credit scoring further exacerbates the exclusivity of

low-income households and closely correlates with past forms of racial exclusion regarding the spatial distribution of housing finance (Migozzi, 2019, p. 7). Butcher (2016, p. 234) in her study of the affordability of real estate in Johannesburg similarly argues that housing and its connection to spatial relationships is a crucial expression of the entrenched forms of racial power in the South African capital.

Despite the government's efforts to bridge this gap between mortgage access and homeownership, the issue of social welfare surrounding housing is growing to become more problematic. It represents a previously mentioned dilemma of "growing needs, constant cake" due to an expanding welfare need based on slow economic growth and increasing unemployment (Chitonge & Mazibuko, 2018, pp. 6-8). These limitations of the successfulness of housing policies for low-income households due to structural economic conditions were identified in other countries of the Global South, such as Brazil, by Pereira (2017, p. 17). The ability to create financial and social security for low-income households through asset ownership in an increasingly volatile market due to financialization is further being questioned, as the next section will show. These dilemmas regarding chosen approaches and outcomes linked to the role of mortgage access and the housing gap raise the question if the chosen policy models are fit for purpose, as the previous section has shown (Tomlinson, 2007, p. 78). Isaacs (2018, p. 319) similarly argues that the financial sector influenced housing policy and the market-centric provisioning of social housing has been defined by financialization and failed against its own objectives in the ability to provide affordable low-income housing.

The financialization of housing in South Africa is an issue which plays out very differently across the extremes of income groups in its society. Due to limited access to debt financing, the relevance of inequalities stemming from financialization differentiates both in the relative initial starting condition regarding asset ownership and the trajectories due to the different logic of debt usage. Real estate represents a crucial axis along which these two differentiating characteristics of income groups and their ability to use debt impact on inequality. While lower-income segments are broadly excluded from acquiring financial debt to obtain assets, the implications of an overall financialized economy and the resulting economic vulnerability have direct implications for the material conditions of low-income households. The resale rate of low-income and low-value properties below 300'000 rand is the lowest and therefore shows that housing is not leveraged as an asset by this income group which goes against the

policy objectives discussed in the previous section (CAHF, 2022, p. 7). This story of two variegated exposures to financialization processes also produces two distinct trajectories regarding their consequences, leading to further divergence between income groups in an already highly unequal society. The housing market in South Africa is a crucial playing field for financialization processes where these dilemmas are being exhibited. (Migozzi, 2019, p. 17)

Walks (2013, pp. 59-60) argues that rising household debt and the respective rise in mortgage finance, as has been demonstrated to be the case in South Africa earlier, contribute to the socio-spatial reproduction of uneven class relations. He empirically demonstrates this relationship in the Canadian context, where he observed a proportionally higher rise in household debt, especially mortgages, in lower-income neighbourhoods. He, therefore, argues that the regressive relationship between mortgage debt levels and income produces spatialized differences in the effects of financialization which reinforce inequality through the social reproduction of uneven class relations. This can be similarly observed regarding the debt developments in South Africa and the implications for class, race, and generational inequalities in a context of an increasingly financialized housing market. The spatial difference created under the Apartheid system and the resulting urban space, as well as the huge difference in generational wealth, is being reproduced and reinforced through processes of housing financialization.

d. Housing market volatility and informal settlements

In previous chapters, it has been shown that the South African housing market over the last decades has been characterized by growing market volatilities due to financialization. This relationship can be located in the model above between the dynamics of the mortgage and housing market and the respective market volatilities with social welfare outcomes such as inequality and mortgage access and the growth of informal settlements. In their research paper with a focus on the macroeconomic effects of the South African housing market, Habanabakize and Dickason (2022, p. 2) argue that rising house prices represent a “double-edged sword”. On the positive side, they might allow for favourable macroeconomic outcomes and improve wealth creation for existing homeowners. However, they also reduce the demand for real estate, increase rents and are harmful to broader social welfare. At high growth rates, they might destabilize the economy and accelerate inflation. This development poses an apparent dilemma to social welfare policy as it relates to the previously discussed

tension between the social and economic, where the inequality outcomes are subdued against South Africa's macroeconomic performance as the examples of promoting global capital inflows and the favourable conditions for capital flight illustrate (Chitonge & Mazibuko, 2018, pp. 6-8).

The unaffordability of housing and mortgages as well as the divergent dynamics regarding price developments across real estate value segments in South Africa have impacted the ability of many people to become formal homeowners. One aspect directly links to the increasing volatility of housing prices induced by increasing financialization. Similar effects result from an increasingly securitized and liquid housing market (Gotham, 2009, p. 367). As housing prices become destabilized, households might be either forced to sell formal housing or further be limited in their ability to afford formal housing or sustain their rising rental costs. This has also impacted the role of real estate in its ability to provide individual financial security as the financialization of the housing market has led to greater instability in its valuation and the respective needs for its financing. For example, homeowners who have already received free properties through restorative justice housing policies will also be increasingly exposed to the volatility of housing markets which might impact their ability to maintain homeownership and limit the prospects of climbing the housing ladder.

Furthermore, the increasing integration of the South African housing market into international financial markets will potentially further decrease its stability and increase speculation through short-term capital inflows, which makes it even more challenging for low-income households to move towards formal homeownership. This relationship is similar to the housing bubble, which was influenced by the trends of corporate financialization and NFC investment behaviour which fuelled the expansion of the mortgage market as presented earlier. Due to an increasingly financialized economy with a volatile housing market and limited access to mortgage markets against the backdrop of increasing unemployment and fewer low-skilled jobs in manufacturing, the opportunities for households living in the informal housing market to improve their accommodation situation seems limited. Low-income households, therefore, increasingly depend on informal means of sustaining the need for shelter. For example, in Cape Town the extensive need for rental housing cannot be sufficiently supplied by formal private or governmental housing, which requires large groups of people to turn to an informal market. McGaffin, Spiropoulos and Boyle (2019, pp. 2, 16) investigated the presence of

“township” or “micro” developers substituting the housing market supply in those South African metropolitan areas. These developers become increasingly important in areas where the formal market supply is failing and are therefore crucial for the understanding of the housing question of South Africa. Especially how these link to the broader phenomena of the financialization of housing could be an interesting investigation of future research. Overall, this shows how the growing instability due to financialization and speculation dynamics in the housing market, therefore, links to the formation and number of informal settlements as substitutes for a limited reach of formal housing markets and debt-based financing. The growth of informal settlements is, therefore, a symptom of various dynamics related to a financialized economy and housing market specifically.

Jones (2012, S. 784) argues that an initiative by the United Nations Habitat agency (2009), which aims at “slum upgrading”, might even further accelerate the impact of financialization on people living in informal settlements. By attracting private investors to fund infrastructural improvements and creating linkages of informal housing infrastructure to international financial markets, it follows a neoliberal model of dependence on private markets and a financial rationale for social welfare provision. Such solutions could potentially lead to higher exposure of informal settlements to the global processes of financialization in South Africa. However, as most financial institutions and corporate landlords still stay away from informal housing markets in the country, the effects of financialization remain indirect and are mostly characterised by a continued marginalization with a lack of access to a formal housing market or mortgage finance. It, therefore, continues to be a spatial expression and social reproduction of inequality in the built environment which separates the capital owners and the “have-nots” (Aalbers & Christophers, 2014, pp. 377-381). While financial integration remains exclusive in the formal mortgage and property development market, the growing importance of micro loans and informal lending become an important link between finance and housing in low-income neighborhoods of South Africa. The conditions of informal housing or formal consumption credits are often worse regarding interest payments and with numbers of around 10-33% of unsecured credits being used for housing related expenses in 2016 these amount to a large burden for low-income households (Isaacs, 2018, pp. 314-316).

6. Conclusion

This minor dissertation has set out to provide evidence of the main characteristics of the financialization of housing in South Africa and link those developments to inequality trajectories. The selection of the relevant characteristics of the analysis has been based on the chosen theoretical Marxist framework following Fine (2013), which was referred to throughout the paper. It has further connected to various elements of a Marxist perspective on housing, such as the entry of capital into a secondary circuit of accumulation, the expansion of IBC and fictitious capital and the social reproduction of unequal class relations. Furthermore, it has provided an overview of the relevant historic economic features of South Africa, such as the importance of the MEC industries, high levels of inequalities and respective dilemmas of social welfare. The financialization of the MEC industries through internationalization and related de-industrialization especially has been an important factor for limited success of South Africa in achieving structural transformation and increasing the share of the population which benefits from economic value creation. This process is further intensified by a neoliberal policy environment underpinned by financialization (Isaacs, 2018, pp. 321-322, 329).

The issue of housing in South Africa is complex due to significant variations in housing needs in the country given the existence of highly polarized income groups and a politicized space for housing policy. For some segments of society, housing is a mere investment object or a source of personal wealth-based security. However, for the majority of people in the low-income segment, it satisfies a basic need for shelter and part of a political struggle to realize their constitutional housing rights. The discourse on housing in South Africa is therefore influenced by high inequalities and its location, which contribute to defining its meaning for homeowners. The chapters on the South African case study have contributed to developing a visual model that provides a mapping of characteristics and interlinkages between financialization and housing, which helped structure the discussion of inequality outcomes from the financialization of housing processes and allowed for a well-founded discussion of various interlinked characteristics and indicators simultaneously. First, it presented evidence of general financialization processes in South Africa. These include de-industrialization paralleled by the growth of the financial sector, an increase in household debt relative to income, internationalization, global flows of capital, and corporate financialization. Second, it presented the specific characteristics of the housing financialization in South Africa, which

included an increasing commodification of housing, the slow rise of securitization and corporate landlords, NFC investment behaviour that expanded the mortgage market, rising mortgage debt and the bursting of a national housing bubble in the early 2000s.

It has also shown that the aspects of a limited formal housing and mortgage market, the limited scope of mortgage securitization and a still limited role of residential REITs still limit the scope of financialization of housing in South Africa. Nevertheless, the various characteristics of financialization and financialization of housing present, in combination with the features of the South African housing market and its respective policies, provided the basis for a discussion of inequality in the final chapter. The existing model could be further extended and modified by additional research or provide a basis for more detailed engagement with specific relationships already discussed throughout the case study. Alternatively, it could serve as a comparative basis for the study of housing financialization in a separate case study.

Some general characteristics of financialization directly affect overall inequality outcomes in South Africa. These include the consequences of deindustrialization regarding a decrease in employment opportunities, especially for low-skilled workers, that the simultaneous growth of the financial industry cannot compensate for. This is especially relevant as wage differences are the primary driver of inequality in South Africa. Furthermore, the access to increasing gains from IBC relative to wage labour remains exclusive to higher income groups as they can use additional debt to acquire assets and real estate. It has been shown that higher income households have accumulated significant volumes of credit and invested in mortgage-financed properties since the end of Apartheid (Isaacs, 2018, p. 326). Lower-income households, on the other hand, must use debt to compensate for low-wages, income shortfalls and finance consumption. This further exacerbates inequalities in an increasingly financialized economy with rising overall debt levels (Newman, 2019, p. 23). Furthermore, relationships between borrowers and lenders are important features of class power relations which are exacerbated by consumption debt versus long-term asset-based investments (Isaacs, 2018, p. 326). The limitations imposed by an increasingly financialized domestic and international economy severely limited South Africa's ability to achieve necessary structural transformation towards economic growth, broad social upliftment, and redistribution (Andreoni, Robb, & van Huellen, 2021, p. 231).

Beyond the general implications for inequality under financialized capitalism in South Africa, specific processes relate to an increasingly financialized housing market. Housing represents a crucial pathway for capital to be absorbed into a secondary circulation circuit and, therefore, sustain financialization processes. Furthermore, it is a representation of uneven social relations between classes and is crucial to their reproduction under financialized capitalism (Aalbers & Christophers, 2014, pp. 377-381; Aalbers, 2016, p. 142). In South Africa, public housing privatizations, market liberalization such as allowing for growing mortgage securitization, a policy-induced integration of new segments of society into capital markets, and the promotion of private actors through government subsidies for mortgages have led to an increasing commodification of housing. The broad promotion of homeownership bears the risk of legitimizing higher inequalities within the South African economy due to a shift in responsibilities for housing provision away from public institutions to private individuals (Conley & Gifford, 2006, pp. 59, 75). Despite significant public policy efforts, mortgage financing in South Africa remains highly exclusive and at the lower-end of the market housing assets remain rather symbolic than an actively tradable asset for financial benefit. Isaacs (2018, p. 319) even argues that many housing policies, especially market-centric ones, were heavily influenced by the financial market. This means that policies have not been able to achieve their own objectives and have rather benefited financial actors and further commodified the housing sector in South Africa. The current patterns of mortgage finance availability furthermore represent a social reproduction of Apartheid patterns of marginalization and spatial exclusion. Though financial institutions now refer to high-risk areas rather than past racialized legitimizations for such an exclusion, the results remain continued unequal access to formal housing markets. This shows how the financialization of housing in South Africa reproduces uneven economic class relations, especially racialized capital distributions. As previously marginalized groups of society cannot rely on the generational transfer of wealth, they highly depend on credit-financed housing (Migozzi, 2019, p. 3).

The property boom of the early 2000s has been experienced in very different terms depending on households' income bracket, with low-income households having an ever-smaller chance of entering or retaining their position in the formal mortgage and housing market. The exclusiveness of the formal financing options for housing have driven many households into less beneficial short-term lending practices which put much more financial pressure on already limited finances. This is a dual process of under-inclusion in a formal market and over-

exposure to financial burdens and market volatility (Butcher, 2016, pp. 110-111). Furthermore, the increasing housing market volatility introduced by financialization processes such as speculative capital inflows and NFC investments has limited the ability of homeownership and respective policies that aim at promoting it to create social security even for existing low-income property owners. These increased volatilities have even intensified the edge of homeownership towards informal settlements due to possible rising rental and formal housing prices. The growth of informal settlements in South Africa illustrates the increasing polarization of uneven class relations in a financialized economy and their reproduction under neoliberal policies in the context of housing.

This paper has provided insights into the specific processes of housing financialization in South Africa from a Marxist perspective. Using a specific theoretical foundation has ensured the coherence of overall argumentation and links the contribution to the broader academic discourse. Nevertheless, the chosen approach might have caused the exclusion of essential indicators of the financialization of housing, such as further macroeconomic and exchange rate-related factors. An additional example of a missing socio-political dimension that further research could provide is the inclusion of an intersection between housing access, inequality, and gender, which is often absent from financialization literature (Fine, 2022, pp. 45-46). The broad approach chosen regarding the relationships between many indicators of financialization, housing, social policy and inequality has limited the detailed discussion of individual factors but ensured the simultaneous discussion of many relevant factors and their linkages. Furthermore, the case study has contributed to a developing field of financialization of housing in the Global South. South Africa shows many indicators of advanced financialization, which will provide an important lesson for other countries with similar attributes when considering implementing housing-related policies to reduce respective inequalities (Ashman, Fine, & Karwowski, 2021, p. 23).

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Appendix

Graph Methodology

This section will outline the methodology behind the graphs used in the argumentation. This only explains the creation of graphs which were not directly copied from the specific reference indicated but involved some own active data visualization:

<p><u>Figure 3: Total budget of government expenditure by topic</u> <i>(in a million Rand, 2005-2022)</i></p>	<p>Data was directly sourced from the South Africa National Treasury website under Documents - National Budget - 2019 - Budget Data and Time Series in Excel Format. The file was Consolidated government, by economic and functional classification: Table 8 from 2005/06 to 2021/22. Only some specific data positions of relevance (now shown in the graph) were included without any further manipulation.</p>
<p><u>Figure 5: Foreign debt of South Africa</u> <i>(Currency denominated in a million Rand)</i></p>	<p>Data values were directly sourced from SARB online statistical query and visualized through an automated Excel graph (2022).</p>
<p><u>Figure 6: Household debt to the disposable income of households</u> <i>(1995-2020)</i></p>	<p>Data values were directly sourced from SARB online statistical query and visualized through an automated Excel graph (2022).</p>
<p><u>Figure 8: NFC cash deposits as a percentage of total assets and overall growth of assets</u></p>	<p>Two individual data values were sourced directly from the SARB online statistical query (2022), which included:</p> <ul style="list-style-type: none"> - Assets of non-financial public enterprises: Total (This value was directly added with the inclusion of a secondary axis) - Assets of non-financial public enterprises: Financial assets Currency and deposits at monetary institutions (From which the percentage value relative to the previously listed total was calculated) <p>These two values were then visualized in Excel by adding a secondary axis for the total amount of NFC deposits.</p>

<p>Figure 10: Growth in mortgage advances & total mortgage debt in South Africa <i>(in a million Rand)</i></p>	<p>Two individual data values were sourced directly from the SARB online statistical query (2022), which included:</p> <ul style="list-style-type: none">- Assets of banking institutions: Mortgage advances (from which the annual growth rates since 1994 were calculated)- Total mortgage loans outstanding (value was used without any manipulation) <p>These two values were then visualized in Excel by adding a secondary axis for the absolute amount of mortgage loans outstanding.</p>
<p>Figure 12: South African real estate price changes <i>(real values, p.a. 2000-2020)</i></p>	<p>Property price data for South Africa was directly sourced from the Bank of International Settlements (BIS) online statistics database. No further manipulations were made before visualizing the data in Excel.</p>