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The Financialization of Housing : A Political Economy Approach

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Manuel B. Aalbers¹ and Anne Haila²

A Conversation about Land Rent, Financialization and Housing

Abstract

Manuel B. Aalbers and Anne Haila discuss their respective recent books, *The Financialization of Housing: A Political Economy Approach* (Aalbers, 2016) and *Urban Land Rent: Singapore as a Property State* (Haila, 2016). Their debate focuses on issues such as comparative research, a political economy approach to urban studies and topics of interest such as land rent, financialization, housing, property states, path dependency, regulation and the role of the state.

Double review of:

Manuel B. Aalbers, *The Financialization of Housing: A Political Economy Approach*. Routledge, London, 2016; 158 pp.: 978-1-138-68240-5, £36.99 (pbk)

In *The Financialization of Housing*, Manuel B. Aalbers asserts the centrality of housing to the contemporary capitalist political economy and places housing at the centre of the financialization debate. It is argued that a global wall of money is looking for High-Quality Collateral (HQC) investments, and housing is one of the few asset classes considered HQC. Presenting a diverse range of case studies from the US, the UK, the Netherlands, Germany, Italy and Spain, the chapters in this book include coverage of the role of the state as the driver of financialization processes, and the part played by local and national histories and institutions. Where housing used to be something “local” or “national”, the two-way coupling of housing to finance has been one crucial element in the recent crisis. Due to the financialization of housing in today’s market, housing risks are increasingly becoming financial risks.

Anne Haila, *Urban Land Rent: Singapore as a Property State*. Wiley, Chichester, 2016; 273 pp.: 978-1-118-82767-3, £19.99 (pbk)

In *Urban Land Rent*, Anne Haila develops an original theory of urban land rent with important implications for urban studies and urban theory. The book is a comprehensive analysis of land, rent theory and the modern city, using Singapore as a case study. It examines the question of land from a variety of perspectives: as a resource, ideologies, interventions in the land market, actors in the land market, the global scope of land markets and investments in land. In doing so, it details the Asian development state model, historical and contemporary land regimes, public housing models and the development industry for Singapore and several other cities, such as Hong Kong. The book also incorporates discussion of the modern real estate market, with reference to real estate investment trusts, sovereign wealth funds investing in real estate and the fusion between sophisticated financial instruments and real estate.

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Comparisons

Anne Haila: *In Chapter 1 you criticise comparative housing studies and explanations referring to different national housing systems. Don't you need these studies to be able to argue, as you do, that "housing is a central aspect of financialisation"?*

Manuel Aalbers: My problem with comparative housing studies is that a great deal of it does very little *comparing* and engages mostly in *contrasting* housing experiences in different countries. Differences are then 'explained' from specific national trajectories, often in an explicit or implicit path-dependent way. But is this really an explanation? And is this really a comparison? It seems obvious to me that different countries will have different housing systems and that this is, in part, the result of past choices.

AH: *I think you downplay the role of history. You even write that it is "a trivial truth" (p. 8) that history matters.*

MA: Why do we see similar developments in different countries? Why do we see house prices increasing faster than average income or GDP in virtually every country in the last decades? An approach that thinks of comparison as the method to explain differences, cannot answer this question. It will focus on the differences and risks missing out on the bigger picture. I am looking for what Rodrigo Fernandez and I in Chapter 5 the book, following Colin Hay (2004), call 'common trajectories'. The idea of common trajectories is built on the empirical observation that countries move in the same direction (albeit from a different starting point) and maintain their essential institutional differences.

AH: *What do you mean when you say "countries move in the same direction ... and maintain their essential institutions" (p. 88).*

MA: Well, this is about the 'common trajectories' I just mentioned. Take a basic example: the size of national mortgage debt compared to the size of the economy (measured in GDP). In the Netherlands this increased from roughly 70% in 2000 to 110% in 2010, meaning that in 2010 the Dutch mortgage debt was 10% higher than the annual GDP. In Spain this number went up from 30% in 2000 to 65% in 2010. In other words: mortgage debt increased significantly in both countries, but there was *no convergence* between the Netherlands and Spain. Yet, both countries *move in the same direction* but that doesn't mean their respective housing systems have become more similar. We see this trend in virtually every country we study. Therefore, we argue that we need to understand housing finance trends in countries in a comparative perspective in which we start from the empirical observation that things appear to be moving in the same direction but with different start and end positions and at different speeds. So, this is not simply globalization or convergence. It's about understanding both the wide variety *and* the mutual developments.

MA: *You discuss globalisation and introduce the concept of global rent (p. 61 and 180). Is all rent that involves international investment automatically global rent? Doesn't this suggest a very flat ontology of globalization?*

AH: The whole idea of the theory of land rent is the separation between the property relations as the necessary condition of the market economy, and their manifestations. Land rent is the economic form in which landed property relations are manifested, as an eminent land rent theorist said. The different manifestation forms of land rent are, for example, land price and rental payment, and these are affected by many other factors, such as location and demand. This is no 'flat ontology.' In

discussing global rent, I did not focus on international investment, but wanted to explain why housing prices are so high in global cities and who pays these prices. Singapore is a good case to explain this. My Finnish expatriate friends who worked for Nokia paid for their housing ten times the amount I paid for living in university housing. Transnational companies, like Nokia, with their generous housing allowances paid those rents. Here we have also a case to show how history matters. Without the systematic construction of the public housing sector, the high rents paid by these expatriates would have increased the general housing price level and excluded other groups from the Singapore housing market. Thanks to the provision of public housing they did not.

MA: *It appears as if there are two distinct parts of your book: one about land rent theory (Chapters 1-4) and one about Singapore (Chapters 5-8). But do we need the case of Singapore to illustrate land rent theory and the different forms of rent it distinguishes? As a case, what does it contribute to land rent theory? How does it challenge or extend land rent theory?*

AH: You must be the only one thinking there are two distinct parts. My book is about a capitalist city in which the land is owned by the state and the state intervenes in the real estate market. I was interested in exploring the role of land in that kind of city, and the theory of land rent provided me a framework to analyse the questions of use, revenue and fairness.

Although the concept of land rent is an abstract concept, I cannot see how one could elaborate the theory of land rent without a case. I do not use Singapore as a case to illustrate the theory as if the theory could exist independently of the social reality it talks about, but to look at in which way the forms and recipients of land rent are entangled today, and how they have changed during the history. And here we see an interesting feature of the theory of land rent, explaining also why such an old theory can be relevant still today. First, new versions of the theory have emerged as a solution to contemporary issues, concerning, for example, housing or poverty. In the book, I illustrate this quality of the theory by comparing it to Virginia Woolf's Orlando. Second, the basic ideas of the theory were already presented at the dawn of capitalism. Smith, Ricardo and Marx could see the role of landowners in relation to other classes in the context of capitalism; today these relations are much more complicated, for example, property owned by REITs. This is also the reason why I develop various categories of land rent; these forms are tools to unveil the unjust landed property under them. I said already that land rent is the economic form in which landed property relations are manifested. The Singapore case is to apply and develop the theory in the context of state landownership.

MA: *You show that the Singapore model of land ownership and development developed under very specific circumstances, both politically and materially. It also didn't develop from a blueprint; what you call "land institutions" (Chapter 5) not only shaped but co-developed with the Singapore model.*

AH: You are correct in remarking that the circumstances in Singapore were specific both materially and politically. The material condition is the fate of being a city state without natural resources to develop industries. This scarcity had to be compensated, and here the political comes into the picture. The founding fathers of Singapore, Lee Kuan Yew and Goh Keng Swee, studied at LSE and listened the lectures by Harold Laski and were influenced by Fabian socialists who were influenced by Henry George. I do not know whether the success of Singapore came as a surprise, but the important thing that I show in the book is the relationship of this success to a cunning construction of land institutions. Here we have history again.

MA: *Is it possible to replicate the Singapore model, and if so, under what conditions?*

AH: This question has been asked several times. My book is not about the Singapore model that can be used as a best practice. The book is to investigate the role of landownership in the case of Singapore, for example, in public housing. And here we see the relevance of “land institutions”: in Singapore, they are woven into an effective network that has the function of hindering land speculation; and land speculation, as I argue in the book, is the main reason for unaffordable housing. If there are some lessons to be drawn from the study of Singapore it is a call to consider land hoarding, speculation and land rent as obstacles to solving the housing question. In addition to this call for a systematic land policy, a strange lesson Singapore gives is to solve the housing question by making workers homeowners. The third lesson is that the development industry benefits if the land is owned by the state. The conditions were specific, and analysing these from the perspective of political economy shows what is unique and what is general in the Singapore case.

Political economy

AH: *You say that you approach the housing question from a perspective of political economy, and repeatedly claim that “Housing is central to the real-world political economy, but remains peripheral to academic political economy” (p. 94). I think this is not quite correct. For example, Matthew Edel in several of his publications has studied the housing question, homeownership and working class, housing prices, and even housing and financial capital from the perspective of political economy.*

MA: The easy answer would be that one swallow doesn’t make summer. In other words, the fact that Edel has looked at these connections does not mean housing is no longer peripheral to academic political economy. In fact, in Chapter 2, Brett Christophers and I discuss a great deal of literature that makes the connections between housing and political economy. Notwithstanding the existence of this literature, I think we can conclude that housing is not central to the empirical research or theorizing of political economists. This is beginning to change with the work of people like Herman Schwartz, Len Seabrooke, Colin Crouch and others. In a way, also Thomas Piketty. And I’m hoping my book will contribute to this emerging literature as well. ... Let me correct what I just said: housing is *re-emerging* as a topic worthy of political-economic analysis. In the 1970s and 1980s it was more common for the two to be united. Look at the work of David Harvey, Michael Ball or the early work of Richard Florida.

AH: Matthew Edel was not a lonely swallow, there were several others, for example, Simon Clarke and Norman Ginsburg (1976), Christian Topalov (1985), Marino Folin (1985) and, of course, David Harvey (1984). Doreen Massey and Alejandrina Catalano already in *Capital and Land* in 1978 distinguished financial landownership as one type of landownership. I think one should look also this literature, not only contemporary writings, if one analyses housing from the point of view of political economy. And there seems to be a rather big difference between the approach of these scholars and your analysis. They included an analysis of land in their housing studies, whereas you focus on money. Like these scholars, I see the approach of political economy broader, including, for example, an analysis of land and land rent.

MA: I agree that land is fundamental but one of the interesting discoveries in writing this book was that land is not that important in explaining the differences and similarities between the trajectories of housing financialization. Mind you, I’m not saying land is not important, just not a key factor in understanding what I wanted to focus on. Take the issue of housing construction. To explain house price development, both housing economists and the popular media typically look at housing

construction as well as the number of housing units compared to population size. The general idea is that increasing house prices reflect a lack of housing supply. My argument is that house prices are not primarily driven by the development of the demand and supply of housing units—although they can surely make a difference of secondary order—but rather by the demand and supply of finance to both housing consumers (primarily in the form of mortgage loans) and housing producers (through a range of financial instruments to real estate developers, construction firms and different types of landlords).

Money and housing prices

AH: *So you explain housing prices by referring to demand and supply of finance. What differentiates you from monetarists who, like you, argue for the importance of the quantity of money?*

MA: It is definitely true that there is a strong focus on money, or more precise finance. I mean, the book is titled *The Financialization of Housing* for a reason. However, I don't think this is a monetarist perspective. It's not only about the supply of money by central banks but about why and how finance seeps—or more correctly, pours—into housing. This is why the opening paragraph of the concluding chapter is as follows: “A global wall of money is looking for High-Quality Collateral (HQC) investments, and housing is one of the few asset classes considered HQC. This explains why housing is increasingly becoming financialized, but it does not explain the timing, politics and geography” (p. 134).

AH: *I think explanation needs something more than just saying that housing can be used as high quality collateral.*

MA: The empirical evidence invalidates the economic maxim that oversupply must lead to declining prices and that rising prices are a result of undersupply. We see that house prices go up in countries where new construction is several times as high as new household formation, like Spain and Ireland, but that this is also true in countries with low numbers of new construction, like the UK and the Netherlands. It's not primarily about land and construction; it's about the supply of money. House prices did not skyrocket because demand increased faster than supply (although this can be a contributing factor) but because the supply of money directed towards housing went up, irrespective of the demand for either housing or money. If the price of money, i.e. the interest rate, is low enough, it will be used either to construct, develop, buy-up, rent out, sell or buy housing. In the age of financialized capitalism, house prices are primarily, but never exclusively, driven by the supply of housing finance. Even when with relatively stable populations and income levels, it is not merely possible but highly likely that house prices will go up if the supply of housing finance goes up.

AH: *So, house prices are primarily driven by the supply of housing finance, and today, because of the low interest rate for housing loans, we see rising prices. Who benefits from this and do higher housing prices create housing wealth?*

MA: In Chapter 4, I analysed how ‘privatized Keynesianism’, a phrase coined by Colin Crouch (2009), was introduced in the years following the Great Moderation, a period that economists think of as one of stable growth and convergence, but which, in fact, was the beginning of the Great Excess, in which income and wealth inequality in many countries increased rapidly, as Thomas Piketty (2014) has demonstrated. The lack of real income growth was matched with a rapid rise in household debt, and in particular, mortgage debt for the middle and to some extent lower classes.

The financial crisis and its aftermath have challenged the security of both homeownership and subsidized rental housing. What is known in the policy and academic literature as ‘asset-based welfare’ is a very thinly disguised neoliberal and financialized discourse that is mobilized to break down welfare and replace it by housing wealth. Instead, it should be labelled ‘asset-based wealth’, as I argue in the concluding chapter. Betting on housing wealth is also a very risky option as the benefits of homeownership are extremely skewed in terms of location, class, gender, generation and ethnicity—see the important work of Oliver and Shapiro (2006) or of Susan Smith and colleagues (2008). Moreover, putting all your eggs in one basket—housing investment tends to crowd out other investments, as Pierre Bourdieu (1990) observed—is the opposite of spreading risk by spreading investments over different assets, markets and locations.

The question is: how do higher house prices create housing wealth and for whom? The last part of the question is easy: higher house prices primarily create housing wealth for those who already own a house. And since rental prices are, at least in part, related to house prices, this also benefits those landlords that are legally able to increase rents. Of course this also implies that those who do not own a house and those who are faced with increasing rents are the losers in the housing game. Even if their income goes up, they may not be able to buy a house. In many housing markets the common knowledge is that the longer you wait, the more expensive houses will become. Family, class and geography all matter and interact in unique ways, resulting in a concentration of most of the housing wealth in the hands of select set of families and the exclusion of many other families from the opportunity not simply to create housing wealth on paper but to realize *real* housing wealth. In reality, what is created is the shifting of wealth between families, classes and locations. Or, in other words: the workings of the housing market, and the tendency towards house-price inflation under a regime of financialized capitalism reproduce uneven development and class inequality.

Financialization

AH: *You argue that “Housing is a central aspect of financialization” (p. 54). What is the evidence for this claim?*

MA: The focus on housing rather than on other sectors has several reasons. Let me try to summarize them very briefly. Firstly, housing is one of the few sectors that directly connects the global political economy of finance to the fate of households. Secondly, the lion’s share of banks’ lending activities these days is on real estate, in particular residential real estate. Third, housing, together with sovereign debt, is a key source of ‘high-quality collateral’ for institutional investors. As the combined capital of institutional investors grows faster than global GDP and sovereign debt from most countries rated as low-risk is not increasing, the need for housing as collateral has increased and continues to increase (see Chapter 5, with Rodrigo Fernandez). In other words, housing is not simply yet another domain of financialization. In terms of size and impact it is the key domain of financialization. In that sense the notion of housing-centred financialization is not only a conceptual tool but also an empirical reality.

AH: *You write: “those housing segments and submarkets will financialize that are able to financialize” (p. 139), can you explain what this “able to financialize” mean.*

MA: The devil is in the detail here. In the concluding chapter I write: “under conditions of financialized capitalism, those housing segments and sub-markets will financialize that are *able* to financialize, or that are *enabled*, i.e. made, to financialize” (139, emphasis in original). Financialization is not a natural phenomenon and is strongly influenced by context drivers. There

are not only geographies of financialization but also politics of financialization. For example, mortgage securitization is neither a given nor natural; rather it is enabled by the actions of both public and private actors. Private actors, such as lenders interested in securitizing their loans of investment banks interested in the fees they can charge for handling securitization operations, may lobby actors within the state to adopt regulation, that is, to enable mortgage securitization through the *expansion* of financial regulation rather than deregulation.

We have seen that even in a context where the owner-occupied housing market is hardly financialized, the rental housing markets may be pressured to financialize selectively. In Germany, for example, the long-term stability of house prices is quite remarkable, but different segments of the rental housing market did financialize rapidly because it was *enabled* to financialize. This makes Germany exceptional and generic at the same time. Whereas an analysis of the German mortgage and owner-occupied markets might conclude that the German housing market is not financialized, those analysing the social and private rental markets would come to very different conclusions. It would be incorrect to conclude that Germany is not financializing because it is not financializing like the US, the UK or some other country, which is why Gertjan Wijburg and I speak of “The alternative financialization of the German housing market” (Wijburg and Aalbers, 2017).

MA: *You discuss financialization and introduce the concept of derivative rent (p. 33, 61 and 213). What is derivative rent? How is it different from other forms of rent? If derivative rent is of a speculative nature, you implicitly suggest other forms of rent are not—could you elaborate on this?*

AH: Land speculation is one of the main topics of the book. Chapter 6, on developers, for example, discusses extensively speculation, and the concept of absolute rent refers to a withholding and hoarding type of speculation. The concept of derivative rent refers to another type of speculation: comparing the yield from land titles securitised and packed together with mortgages compared with the yield of shares and stocks. This type of speculation has very harmful effects on the built environment.

The state and regulation

MA: *You argue that Singapore is a property state. But you don't really explain what you mean by a property state. In 2000 this journal published an article in which you argued that both Singapore and Hong Kong are property states and developed the concept. Why did you keep the concept from the 2000 article but not its conceptualization? In the book the concept provides “flavour” but conceptually you appear to prefer “regime of regulation public rent” or simply “land regime” and “land institutions”. Why has the concept of property state fallen out of favour but did you still keep it as the book's sub-title?*

AH: In the book, compared with the article, there is a more detailed empirical analysis and several comparisons. I analyse the institutions, actors, and policies in Singapore, look at the historical development of land institutions and landed property, show how the provision of public housing was gradually extended to more than 80 percent of the population, analyse development companies and their relationship to the state, and discuss public revenue. All these actors, institutions, revenues and so on are features of the property state. The book also places the Singapore property state on the map of historical land regimes and philosophies of property by discussing Enclosure movements in Europe and philosophers such as Locke, Rousseau and Kant. All these discussions give a more comprehensive picture of the property state.

MA: *Both Singapore and Hong Kong are city states as well as secondary global cities. Is it possible to conceive of property states in other circumstances? Do these need to be city states or could they be larger countries as well? And if so, do they need to be spearheaded by a city state?*

AH: There are two features that characterize both Singapore and Hong Kong, as I discuss in Chapter 6. First, they derive a considerable amount of revenue from land and real estate. Second, in these city states there is no need to redistribute this revenue and subsidise underdeveloped hinterland. The lesson here for other cities, whether city states or not, is that they can tax real estate. This may sound trivial in countries where real estate taxes have a long history, however, in some countries, like in Finland, the amount of real estate taxes in public revenue is very small. Today when real estate is increasingly owned by professional investors like REITs and the rentier class captures the benefits from rising real estate prices, cities should increase their real estate taxes. In this sense, we can perhaps even say there is a tendency of cities becoming property states. However, a lesson the property state of Singapore gives is to intervene and regulate the real estate market.

AH: *I am surprised you did not ask me about regulation, because you also discuss regulation. But you talk about ‘regulated deregulation’ (Chapter 7, in particular). What do you mean by this?*

MA: Deregulation is not a clearly defined term, mostly serving to encompass ‘the opposite of regulation’. In economics and popular media, regulation is seen as anything that limits the workings of market mechanism. To most mainstream economists, regulation has a negative connotation; it is only deemed beneficial if it addresses market failures. Political economists generally use a more open definition of regulation, and argue that the state principally shapes—not simply constrains—markets. Capitalism is furthered through regulation. Because of the multiple meanings associated with the term deregulation, I have proposed this alternative concept (see also Aalbers, 2016b). The ‘deregulation’ part of it refers to deregulation-as-liberalization, that is giving some economic agents greater freedom from state control and legal restrictions, while the ‘regulated’ part refers to “setting rules and establishing an enforcement mechanism designed to control the operation of the system’s constituent institutions, instruments and markets” (Spotton, 1999: 971). In other words, under regulated deregulation some economic agents are given greater freedom from state control, but the market framework itself is regulated. In fact, regulation gives some economic agents this freedom, typically at the expense of other agents.

The concept of regulated deregulation enables us to see how liberalization of selective economic agents was only made possible by the introduction of a new regulatory system that replaced or amended the existing one. Regulated deregulation allows for the combination of competition and economic incentives, on the one hand, and the coordination and regulatory authority-led making and shaping of different economic sectors and industries. As I argue in the concluding chapter, the state actively—but not always consciously—creates the conditions for the financialization of housing and other assets, sectors and markets. The state is not withdrawing but rather being restructured a way that favours the interest of some—often large, financialized corporations—at the expense of others. Regulation is not being repealed to make the market mechanism function more smoothly; it is introduced to create new markets that end up looking nothing like the level playing field utopias espoused by neoliberal economists, think tanks, lobbyists and politicians.

AH: *Can you give an example of what this new regulatory system looks like?*

MA: OK, let’s take the regulation of American and British housing finance, which demonstrates that forms of regulation facilitate markets at least as much as they constrain them. Authors using the

term deregulation often focus on the repeal of acts such as Glass-Steagall in the US (p. 120), but pay less attention to all the new and expanded regulation that has replaced it. In fact, regulation in most markets is actually increasing and often at a rapid pace, tempting Levi-Faur (2005) to speak of a ‘regulatory explosion’. New regulation tends to be more specific, more detailed and therefore complex. There is also a tendency for formal laws and acts to be complemented by massive volumes of different types of regulation (by-laws, statutes, ordinances, controls, codes, rules, principles and standards), which are all increasingly institutionalized in law.

AH: *Compared with my discussion about the property state, you do not talk much about the state and its institutions, for example, central banks, and fiscal and financial policies.*

MA: I don’t think it is correct to say that I don’t talk much about the state. In fact, the role of the state is highlighted in every chapter. In general terms, the state is often the driver of financialization processes, for example by pushing families into housing debt, by enabling financial institutions to buy up subsidized housing, or by simply withdrawing from providing or regulating the housing sector and opening up the field to rent-seeking financial institutions. It’s almost impossible to come up with a list of how I include the state in my analysis because the entire book is saturated with it. To start with, there is the idea of ‘regulated deregulation’ that we have just discussed. I mobilize this concept to show how for example mortgage securitization but also housing privatization were state-led developments (Chapter 7). Brett Christophers and I also discuss the role of the state in making the twin institutions of private property and homeownership, including its fiscal treatment (Chapters 2 and 4); as well in creating a modern mortgage market through a range of policy initiatives by the US federal government between the 1930s and the 21st century (Chapter 3). Furthermore, in Chapter 4, I tie housing to austerity and ‘Privatised Keynesianism’ (Crouch, 2009) and in Chapter 5, Rodrigo Fernandez and I discuss the role of central banks in not only the supply of money but also the way their policies favour investment in housing. What is different between your book and mine is that your book focuses on one particular country while mine presents a more general argument that is illustrated through data and examples from various countries.

AH: I think your last sentence shows the difference between our methodology and epistemology, we have encountered already before. You generalize from similar developments in different countries, whereas I, like Bent Flyvbjerg, think that “generalization is only one of many ways by which people gain and accumulate knowledge” (Flyvbjerg 2006, 227). Case studies can also contribute knowledge accumulation; some scholars may even agree with John Walton (1992, 129) who wrote “case studies are likely to produce the best theory” (cited in Flyvbjerg 2006, 227). Further, I think generalizations need explanation (Manicas 2006), and I am also interested in a genetic explanation referring to historical development (Zeleny 1970). As I said already, my book is about a capitalist city in which the land is owned by the state, and the state regulates the real estate market. Its general argument concerns such conditions of property and this type of the state. I do not generalize from empirical data, but analyze the relationships and mechanisms, and focus on the institutions and policies of the state, for example, in Chapter 8, the policy of the Monetary Authority of Singapore (Singapore’s central bank). I think showing such mechanisms is, at least as convincing as demonstrating general trends.

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