This project has received funding from the European Union's Seventh Framework Programme
for research, technological development and demonstration under grant agreement no 266800

FESSUD

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE DEVELOPMENT

Working Paper Series

No 189

Finance and economic and social reproduction: Origins of the present and implications for the future

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ISSN 2052-8035

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Finance and economic and social reproduction: Origins of the present and implications for the future

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Abstract The main scope of this paper is to reflect on the factors that have shaped economic and social reproduction in recent years, drawing on a series of case studies examining the systems of provision for water and housing conducted, and then drawing upon this to offer "foresight" for the future. The paper falls into three parts. The first considers the challenges of the foresight exercise itself. This is followed by an analysis of the parameters that have shaped financialisation in the provision of water and housing as case studies, demonstrating both common trends and regional specificities across different countries. Finally, a vision is constructed of two futures considering first the implications of continuing on the current trajectory before exploring the circumstances under which an alternative path could unfold.

Overall our research indicates that the organization of economic and social reproduction has been transformed, with global finance engaged in ever more areas of economic and social life. But this is highly variegated, changes take decades to evolve and the consequences are often unintended. However, deviation from the current trajectory appears unlikely without a major political shift.

Keywords: financialisation, public provision, water, housing

JEL: G00, H4,

Date published as FESSUD working paper: December 2016

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Acknowledgments:

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800.

The authors would like to express their thanks to the following for helpful comments on earlier drafts: Jerome Creel, Wlodzimierz Dymarski, Guiseppe Fontana, Gilad Isaacs, Piotr Lis and Ana Santos.

Website: www.fessud.eu

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1 Introduction

The main scope of this paper is to reflect on the factors that have shaped economic and social reproduction in recent years, drawing on a series of case studies examining the systems of provision for water and housing conducted for Work Package 8 of the EU FP7 project titled Financialisation, Economy, Society and Sustainable Development (FESSUD) and to some degree for Work Package 5.

This Working Paper builds on a body of empirical and analytical work carried out for FESSUD under WP8 which began with an analysis of the Systems of Provision (SoP) approach exploring its relevance to public service provision (Bayliss, Fine and Robertson 2013). This formed the basis of the analytical approach adopted in the series of case studies carried out for water and housing in five case study locations[1] prepared for Deliverable D8.25. This Deliverable was followed by a Synthesis Report (D8.26 – see Bayliss 2015 and Robertson 2015) which presented the main findings from the case studies for water and housing. There then followed three select thematic papers (D8.27) drawing on the case studies to relate their core findings to wider themes relevant for FESSUD. These three papers covered the following topics: Neoliberalism, Financialisation, and the Role of the State.

Overall, this research indicates financialisation – as defined as the intensive and extensive accumulation of "interest-bearing capital" – has transformed profoundly the organisation of economic and social reproduction with global finance engaged in ever more areas of economic and social life. Based on our case studies, however, this is highly variegated in implementation and outcomes across and within countries. These above mentioned Deliverables provide a wealth of empirical material and analysis on the themes of financialisation and will not be repeated here.

Instead, this paper focuses on what can be said for the future of finance in the provision of basic services, notably housing and water, drawing largely on this empirical material compiled for FESSUD. The approach has been to examine the underlying transitions that have shaped the present in order to speculate as to how the future could unfold. The empirical material is used selectively, drawing heavily on the UK experience as it is here that financialisation has been most significant but also drawing comparisons with Portugal and South Africa where financialisation has taken root but has yet to have the same presence as in the UK. Meanwhile, in Poland and Turkey, neoliberal practices have shaped sector organisation (as the empirical research compiled for WP8 testifies) but private finance capital is less prevalent.

The paper falls into three parts. The next section considers the challenges of the foresight exercise, noting that the outcomes from privatisation programmes of the 1980s are far removed from what was anticipated at the time (with corresponding lessons for foresight exercises). This is followed by an analysis of the parameters that have shaped financialisation in the provision of water and housing in the case studies in recent years, demonstrating both common trends and regional specificities. Section 4 then constructs a vision of two futures considering first the implications of continuing on the current trajectory before exploring the circumstances under which an alternative path could unfold.

2 The challenges of the foresight exercise

Engaging in foresight involves a necessarily crude combination of humility and ambition. The humility derives from the realisation that, if we place ourselves back in time, say by the thirty or forty years or so to the beginnings of neoliberalism, and then anticipate the future without the benefit of hindsight, there is much that we would not have foreseen. Perhaps, even more tellingly, this is so not just for ourselves but also for those who were themselves the leading advocates of neoliberalism. One of the leading thrusts of neoliberalism has always been to promote globalisation and the withering away of the (nation) state (in that ghostly echo of the Marxist transition from socialism to communism). But it has always equally been heavily focused upon the pursuit of national (competitive) advantage and presence on the global stage and, indeed, to deliver the global through domestic politics and policies, with austerity of TINA[2] vintage to the fore.

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In this vein, it is an intriguing if possibly idle exercise to imagine how Mrs Thatcher would have viewed the consequences of neoliberal globalisation for UK plc. Her programme of privatisation was inspired by the selling-off of social housing to owner-occupiers, as the putative model for a share- as opposed to simply a home-owning democracy. It has morphed into dramatic increases in inequality with stark wealth divisions between homeowners and those living in rental accommodation. In water, the privatisation programme of the 1980s, intended to contribute to widespread small-scale shareholding in the population, has created ownership structures whereby water has become the property of internationally organised and located private equity firms. Equally unanticipated was the transfer of electricity companies from the British to the French state!

In short, neoliberalism has in many respects (been) driven to extremes that were not anticipated nor, to a large degree, desired even by those whose hands were, at least initially, on the controls. Surely, at the forefront of such unintended, as well as intended, consequences has been financialisation with, of course, as emphasised in much of our work, lack of control having become both systemic and endemic as has been revealed not only by the Global Financial Crisis (GFC) but also by the inability to bounce back from it. Given that it is now commonplace to acknowledge, even accuse, that the GFC was unanticipated and even considered impossible - a black swan - prior to the event, the lesson to learn is to be cautious about anticipating the future, both because the GFC has taught us a lesson in humility and because the underlying causes for that lesson remain in place as far as foreseeing the future is concerned.

A foresight agenda, then, must address the prospects for, and the continuing impact of, financialisation. But, the period of neoliberalism, and projecting forward from it, cannot be reduced to the vagaries of financialisation alone. The uncertainties attached to the financial system are deeply embedded in the evolving conditions of economic and social reproduction attached to neoliberalism. And such conditions have both underpinned past developments and underpin prospects for the future, not least in providing what might be termed a protective belt around the financial system and continuing financialisation. As argued in our Deliverable, D8.27, neoliberalism has undergone two phases (although these are best seen as logically rather than necessarily chronologically sequential) – one involving the rolling back of the institutional forms associated with the Keynesian period, and the second rolling out the institutional forms characteristic of neoliberalism (see Bayliss, Fine, Robertson and Saad-Filho 2015). This has been associated with four shifts: in the balance of interests represented in policymaking, not least with the decline in strength of trade unionism; in the location of policymaking, with this increasingly centralised at national and even international levels; in the consolidation of power in the making of policy, as influence is exercised through the different avenues of media, and access to state institutions, politicians and officials; and in the forms taken by policy as, for example, the role played, or not, by state regulation as opposed to ownership irrespective of whether commercial criteria apply or not, quite apart from the influence of global institutions.

The mismatch between the expectations and/or ideologies of neoliberalism and its corresponding outcomes and policies in practice are complemented by an equally significant dissonance with and within scholarship. As highlighted in D8.27, the critical understandings of neoliberalism, and hence its anticipations, have been unduly caught in the time warp of the past in which neoliberalism is some sort of temporary deviation from the Keynesian post-war boom. Accordingly, neoliberalism has been understood as the mirror image, or other side of the coin, of Keynesianism, like monetarism in the sphere of macroeconomics, or interventionism in case the Keynesian period is more broadly identified with the many different elements of modernisation.

From such a starting point, the most obvious omission in understanding how neoliberalism has turned out has been the absence or neglect of (embedded) financialisation. This is most apparent in the scholarship on the welfare state and social policy which continues to be dominated by the welfare regime approach. (Esping-Andersen 1990; Fine 2014), also explored in D8.27. The situation is slightly different in case of scholarly literature on social compacting for which the transformation under neoliberalism of the ways in which policy is made (the four shifts identified above) has been acknowledged through its demise. And much the same is true of the literature on the role of the developmental state, and the corresponding developmental state paradigm (see Fine 2015). Whilst such scholarship was primarily concerned with identifying the means of latecomer, catch-up industrialisation (closely identified with the east Asian NICs), its own demise is indicative of the more generally scholarly weakening of the case for interventionism, not least in the context of industrial policy whose revitalisation in the wake of the GFC is as much heralded as it is diluted.

It follows that, in anticipating the future, extreme humility is required in view of the limited guidance that can be derived directly from past scholarship – it would appear to be more useful as critical point of departure – as well as in needing to identify the shifting configurations of neoliberalism and financialisation. In addition attention needs to be devoted to the nature and role of the state, and the balance, forms, location and consolidation of economic, political and ideological interests. By the same token, to tread humbly on such a project requires considerable ambition not only in understanding how the contemporary is currently evolving but what are the different sorts of trajectories that it might follow.

3 Where are we now and how did we get here?

A foresight exercise clearly needs to be grounded in an understanding of the past (history, after all, repeats itself) but history is subject to interpretation and political bias. Even accounts of the present will differ across perspectives and interest groups. There are, then, numerous parameters to be established in a historical analysis and analysts may even disagree on the starting point. This is shown in Edwards' (2015) take on foresight for UK housing. While many attribute the emerging crisis in the UK to a cumbersome planning system restricting a supply response, Edwards traces the current housing situation back to the falling wage share of income since the 1970s leading to a growth in consumer credit that enabled consumption to rise faster than personal incomes. This process led to an accumulation of capital which in the UK has been invested in finance and property (as opposed to productive investment such as manufacturing which may be the case in other countries). He states (2015, p24): "Our problems have had a long period of gestation".

Similarly, Christophers (2014a) provides a comprehensive review of the literature on the origins of the financial crisis, also going back to the 1970s and the empowerment of capital relative to labour leading to wage repression and the rise of credit-fuelled consumption with an expansion of the role of the financial sector. He cites a number of historical studies that help to "illuminate the tangled roots of the financial present" (p.286).

In our second thematic paper for Deliverable D8.27, we set out in detail our understanding of financialisation which is the most salient feature of neoliberalism which we consider to be a stage in capitalism. We stylise earlier stages in terms of a kind of laissez-faire period in the nineteenth century (if not free of state intervention, especially protectionism) which evolved into a more interventionist (Keynesian or Fordist) period around the middle of the last century. The neoliberal period has created a new set of structures and processes which redefine not just modes of economic reproduction but also social reproduction (Dardot and Laval 2013, p.14). Necessarily, whether financialisation is perceived as attached to a new stage of capitalism depends upon how one stage is distinguished from another. The presumed teleology of increasing socialisation of economic life and its increasing incompatibility with private forms of ownership in the Marxist understanding of the evolution of capitalism has transparently been heavily ruptured following the collapse of the post-war boom. Nor have Keynesian, welfarism, monopolisation, etc., proven the basis for further socialisation as the next stepping-stone towards social reformism. Instead, even if not returning to a mythical age of laissez-faire capitalism, further socialisation has taken the form of financialisation, not least with the intensive and extensive penetration of finance (often seen as the market) into ever more areas of economic and social reproduction. Significantly, then, housing and water have been subject to financialisation in the neoliberal era even though they are in their own respects far in some sense from standardised objects for capitalist production, circulation and speculation.

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This section attempts to unpick, from the wealth of empirical material, the most significant developments in the recent past that have created the present and will shape the future of financialisation in economic and social reproduction. Our case studies also show that the current systems of provision for water and housing have emerged from shifts in structures and processes the have occurred over decades. For example, the financialised structures of water in England and Wales (EW) have their origins in the privatisation policies of the 1980s Thatcher government, but the current state of the sector which is predominantly owned by foreign investors is far from that which was imagined at the time of privatisation itself. Privatisation in the country has since become subsumed by financialisation with both housing and water now serving as financial assets.

3.1 Changing structures and processes

The case studies show that neoliberalism and financialisation have been associated with fundamental shifts in structures and processes. These are not readily reversed and their impact across the economy is not always obvious. For example, in the provision of housing, all of the country case studies demonstrated an orientation towards owner-occupation, which has served not only to commodify housing, but also to incorporate finance more strongly into its provision, by increasingly making access to housing contingent on taking out a mortgage. Finance, then has become more deeply embedded in the provision of shelter and the shift to greater owner-occupation has led to the expansion of this base of political support. Sector reform is constrained by the political fall-out from a decline in house prices.

In water, following privatisation, the buying and selling of ownership stakes have become standard practice in EW although this is not common elsewhere. Water company ownerships are intricate and opaque. For example, a major stakeholder in Thames Water that serves the London area is Macquarie European Infrastructure Fund 2 which is one of four European infrastructure funds owned by the Australian bank, Macquarie. Macquarie has numerous other investments in UK infrastructure, notably in ports and airports as well as similar investments throughout Europe. Other investors in the water sector also have infrastructure investments in the UK and Europe and more private investment is sought to finance future infrastructure needs. Investors then have a strong bargaining position in infrastructure policy.

As the power, influence and revenue share going to finance have grown, there has been a concomitant decline in the influence of labour. In EW and Portugal the case studies show a shift in the allocation of revenue with a decline in share of water revenue going to labour costs and an increase in the proportion paid in interest and dividend payments. This is consistent with weakening labour power in the rest of the economy and, in the UK, an expansion of low paid employment. This has knock on effects for financialisation. For example, a decline in the provision of pensions in the UK is linked to an increased demand for housing as a form of saving for the future and consequent upward pressure on prices. This is tied in with the recasting of housing as a financial asset rather than simply a form of shelter (Robertson 2015; Edwards 2015). In all of the case studies for D8.25, there were some households that have seen an increase in wealth tied up with housing.

However, both water and housing cases show that the current structures are siphoning off a significant proportion of revenue in financing costs. Edwards outlines the way in which households are paying a much higher proportion of incomes in either rent to landlords or financing costs for mortgages. He suggests that this effectively absorbs funds that could have gone into productive investment in the economy and can be seen as a form of taxation. There are clear parallels in the water sector in England and Wales where a substantial proportion of the average water bill (almost one third) is accounted for by financing costs. Thus, payments for water results in significant transfers to shareholders (via dividends) and to bond holders via interest payments. Both water and housing, essential services that are not typically associated with finance, have become structured in such a way that the payment of household bills results in payments to rentiers. These intricate shifts resulting from privatisation and financialisation have created a broad support base for financialised provision with political influence which presents a significant barrier to an alternative policy approach.

3.2 Spatial variations in a globalised process

Our position, as outlined in D8.27, is that stages of capitalism operate at a global level subject to national and sub-national variegation in implementation and impact. While stages of capitalism define the global economy, countries are differentially integrated in to it. The spread of financialisation has been uneven across and within countries.

Geography, then is significant in the way in which financialisation has evolved and will therefore impact on foresight. This is borne out in interpretations of the financial crisis which has attracted attention from economic geographers. The financial crisis was marked by unevenness within and across countries and in part this is the result of a long history of geographically uneven development (Christophers 2014b p206). Some root the crisis historically in the institutions and processes of global capitalism and consider this to be a product of "informal 'American empire'" (Christophers 2014a, p.286, citing Schwartz 2009 and Harvey 2010). For Christophers (2014a, p.287): "geography… is fundamental to historical questions of how and why the financial world developed in *this* particular way".

The diversity of financialisation in practice across the case studies suggests that the way in which neoliberalism develops is variegated depending on underlying structures. It may be that the reason that financialisation has become particularly intense in the UK and USA stems in part from their roles as major financial centres. Our research suggests largely that the nature and extent of financialisation of the water sector reflects a country's wider experiences with financialisation more generally. Finance has been particularly significant in EW in the provision of water and health, and even here it is limited to its involvement in England and less so in the other countries of the UK. Arguably the role of the City of London as a major international hub has had an impact. The scale of financialisation of water is to a large degree driven by the companies that operate in this sphere (including investment banks, asset management firms and global financial companies). For Portugal, being in the Eurozone has directed the nature of financialisation. In South Africa, the nature and extent of financial instruments used to finance water are highly skewed, like the financial sector itself. Some water companies issue bonds and use derivatives (such as the Trans-Caledon

Tunnel Authority (TCTA) and Rand Water) while others serving poor areas with weak capacity lack any kind of financial sophistication and depend on central government support.

Similarly, in housing, while mortgage market growth in general has been underpinned by increased international capital flows, it has also reflected different circumstances in different countries. The case studies present differences in sequencing of processes. In South Africa – unlike the UK – housing financialisation did not start from a platform of state housing that was privatised but rather the commodification was built on the back of new housing initiatives.

The nature and extent of mortgage market growth has been highly variable across the five case studies although some generalisations can be observed. Mortgage market growth has been driven by lending to better off households. The goal of extending mortgage lending to worse off households has been pervasive but has been more successful in wealthier countries.

While the impact of financialisation is variegated across locations, practices of privatisation in the context of globalisation mean that households, through their consumption of housing and water are unwittingly immersed in international financial flows. With mortgage finance and water bills often paid into global private equity funds or overseas listed conglomerates, households are the essential foundations of a world of off-shore finance. For, financialisation, national boundaries have little relevance for financial flows. Stakeholders in service provision now come from around the world. One of the shareholders of the privatised Southern Water Company in the south of England is the Papua New Guinea Superannuation Fund. The impact of these global interconnections on foresight are difficult to predict but the geographical spread of stakeholders in the SoPs has exploded with financialisation.

There has, then, been a major transition with basic services no longer locally financed and provided as they were for most of the last century but they now form part of a global investment portfolio for some far off investors. Households are immersed in global corporate structures that are far more complex and opaque than was imagined, possibly even desired, at the time of privatisation, and without the market necessarily imposing a competitive and effective discipline - and, thereby, consolidating practices that will be difficult to reverse.

3.3 Changing narratives and cultures

Shifts in narratives and cultures serve to embed changes in ethos and are vital to the sustainability of neoliberalism. Finance is now central to discourse in the provision of basic services and in many sectors. Health services in the UK are dominated by financial imperatives that often outweigh clinical needs. The shift in cultures is set out in the material culture of financialisation (MCF) in D5.1 (see Fine 2013). Similarly, the 'market' and 'market forces' are seen as drivers of efficiency which are considered to correspond to private provision and render it superior to state provided services.

These narratives, which emerged to varying degrees in the case study countries and, for example, were overtly present during the transition to democracy in South Africa, have served to obscure some of the avenues of financial exploitation in the case studies. For example, in the provision of both housing and water in EW, sector policy is framed in terms of a 'market', albeit one that has many imperfections. For example, the process by which private water companies create opaque corporate structures to raise gearing in order to finance dividends is seen as a 'market outcome' which means that it is outside the scope of regulation. In housing the use of the market to allocate land has led to an unequal housing system where asset values continue to appreciate rapidly. Inequality is accentuated with homeowners using their properties as collateral to purchase additional homes which they then rent out.

The promotion of 'market forces' is reinforced by a growing emphasis on scarcity in terms of both finance and natural resources and this supports the neoliberal project with privatisation wrapped up in a narrative of efficiency, investment and market outcomes. Also related is the narrative of individualism, which is central to neoliberalism, and associated self-responsibility. For example, greater metering of consumption puts the onus on households to ensure that their water consumption remains within the limits of affordability. Paying for water has become tinged with moral responsibility, with non-payment of bills construed as depriving the sector of investment and exploiting hard-working households. In housing, the narrative of self-responsibility shapes social provision with the erosion of social housing safety nets serving those excluded from the market and consigning social policy to a residual role.

Self-responsibility is tied in with the re-casting of housing as a financial asset, as mentioned above, but this is not universal as our case study of South Africa demonstrates. Here the state has shifted towards a narrative of “self help” and self-reliance. However, in contrast with trends in other locations, here housing is associated with physical shelter and regarded as an emotional asset rather than a financial one.

This shows that social norms under neoliberalism emerge not simply from the imperatives of financial calculation, but from the interaction of those imperatives with the pre-existing social meanings and norms attached to particular items of consumption.

Changing cultures have been a core element of shifts in social policy. Where once collective responsibility led to universalist responses, for example with social housing, the National Health Service and public water are now depicted as inefficient and unaffordable. And individuals have their own responsibility to ensure their access to services. Rather than as a safety net through universal provision, welfare is now associated with scrounging and a sense of individual failings as a cause of deprivation. This is also tied up with media depictions of welfare recipients (see Happer 2013). For foresight, shifting the course of financialisation will require addressing these fundamental narratives in society.

3.4 Role of the state

The role of the state has shifted substantially in these sectors with the rise of neoliberalism but this has not been about a retreat of the state so much as a restructuring of provision in the interests of private capital. In housing this comes down to promoting owner-occupation, applying a commercial rationality to land use, aiding the accumulation and appropriation of rent and making real estate a site for capital investment, a general reliance on the private sector for provision of new build and repair and maintenance; and an allowance made for a minimal though often dysfunctional safety net, in which the private sector again plays a central role in delivery (Robertson, 2015). State support includes mortgage subsidies as well as some supply side measures, to increase the housing stock, for example in Portugal and South Africa

In water, the role of the state has been transformed in EW as the state no longer has responsibility for providing water which is now entirely the responsibility of private firms. This was not the case in the other countries studied where state agents, often at the local level, still had responsibility for providing water and sewerage services. Although governments had tried to privatise water – albeit through concession contracts rather than the divestiture approach adopted in EW - this was not widespread, reflecting the selectivity of private capital.

In EW the main role of the state is as the economic regulator of the water companies. The experience of water regulation in EW highlights the challenges in controlling private companies more widely and has parallels with the efforts to restrain finance more generally. The approach to regulation initially led to requesting ever greater levels of information but this failed to lead to more effective regulation and placed onerous requirements on companies and the regulator. In common with the financial sector there was a perception that sight of the wood would be lost for the trees. There has been a shift with the role of the regulator now effectively reduced to incentivising compliance rather than checking on the activities of companies. The experience of regulating water companies in EW points to the greater challenges of controlling the activities of financial companies more generally. The highly geared complex corporate structures - with extensive inter-group transfers via off-shore jurisdictions creating high dividend payments - are outside the control of the regulator. Instead regulation comes down to price-setting and performance monitoring. A 'revolving door' between regulator and industry further weakens the independence of the state.

To some degree state activity is constrained by the requirements of supra state agents. This was particularly evident in the case study of Portugal, South Africa and EW. Pressures to keep government debt in check, while at the same time to increase investment, inevitably push states to increase private involvement in infrastructure. This has also been the case with hospital infrastructure in the UK which has largely been financed by the private sector up-front and then repaid by the local authority over decades under high-cost PFI deals.

For foresight, then, the state has been vital in increasing provision of basic services and has invested heavily in these in all cases. Now, however, with the state consistently denigrated as a provider, much of the state-sponsored investment has been transferred to the private sector. To the extent that alternative approaches aim to increase collective provision of services, confidence in the state needs to be restored.

3.5 Variegated vulnerabilities

Neoliberalism is associated with an increase in inequality. The case studies also show a negative impact on equity and in the UK in particular, financialisation is associated with a 'trickle up' of funds. In South Africa, unequal pre-existing structures also shape outcomes. Social provision tends to be of poor quality and in short supply, and hence does not reduce inequality beyond ensuring a minimum standard. The continued focus on market outcomes leaves the state to deal with the dysfunctions and dissonances where the market fails to prevail, most obviously with the hard to employ, house, educate, provide for in old age, raise out of poverty, provide for health, and so on. The neoliberal approach to equity comes down to residualism to smooth off its own worst effects. Social policy only addresses the basic needs of the most deprived but fails to consider the wider distributional impacts of the high monetary rewards paid to investors.

There is some evidence that women suffer most from the harsh effects of financialisation. In water, female-headed households were more likely to be among those with high levels of arrears. This fits with other assessments. Christophers (2014b p. 209) cites Pollard (2013) to show that a growing number of studies attest to women's and men's 'differentiated experiences of the financial crisis'. And he cites evidence of racial disparity in the impact of subprime foreclosures on black households.

Debt features increasingly in the provision of both water and housing across the case studies. In housing, mortgage market growth, as the counterpart to the promotion of owner-occupation was a feature of all of the case studies. In the UK, total gross residential mortgage lending increased by 521% between 1995 and 2005 (Robertson 2015). Yet not having access to such debt finance, in particular for housing, excludes households from the market, as shown in the UK and South Africa. Hence rising mortgage debt is not unequivocally a bad thing. In water the location of the debt was varied across sectors and locations. In EW the increase in debt has been attached to the private water companies, some of which have hiked up gearing levels. In Portugal many municipalities have refused to increase prices while costs have risen so their debts to bulk water providers have escalated. And in South Africa, the cost recovery price of water is beyond the affordability of many in the country so household debts have escalated and this has fed into municipal debts. These high levels of unpaid sums will shape the future of these sectors as these agents are tied into repayment. This has resonance with Christophers (2014a p.290), citing Lazzarato: "the debtor is 'free' only insofar as she assumes a way of life compatible with reimbursement". In EW, for example, in March 2014 the total debts of the Kemble Water Finance Group, which owns Thames Water, came to over £10.5bn (next to an operating income for Thames Water of just £23.6m in 2014) and incorporates numerous bond issues made by different group companies, some located in the Cayman Islands and some with a maturity date as far off as 2062.[3] This poses a considerable barrier to any alternative means of provision. In the current economic climate there is unlikely to be any political appetite for devoting scarce public funds to water re-nationalisation.

Foresight predictions then need to consider these trends emerging from financialisation and consider the implications of their continuing unchecked as well as what measures would be required to improve equality. Attention needs to be paid to the structures that create the inequality and the distributional outcomes rather than just easing the harsher conditions of deprivation. High debt levels limit policy options. Extensive indebtedness means that debt repayment will be a determinant of sector operations in all of the case studies which will shape subsequent reform programmes.

4 Visions of the future

There are two elements to this section. First we consider the likely outcomes of continuation on the current trajectory and second we set out what could be done to promote more collective outcomes.

4.1 Continue as is

Financialisation is deeply embedded in the UK and the other case studies in varying forms. It has been associated not just with a collection of policies but with fundamental shifts in social and institutional structures as well as perceptions. The impact of the financial sector will continue to be felt in different ways but it has been shown to be particularly predatory and destructive in its effects on the provision of basic services. This has evolved over decades and continuing on the path is likely to create greater inequality with less unionised labour and greater policy influence in the hands of financial companies. The increasing market focus, for example, in the allocation of land is likely to lead to greater disparities in value. Edwards (2015) raises the image of a concentration of high value land in London with the rest of the country conceived as Bantustans for warehoused workers.

As the previous section shows, the extent of financialisation in the provision of basic services is highly variegated even though all countries have adopted neoliberal policies to varying degrees. This is particularly notable in the approach to water privatisation which, although embraced across the case studies in theory, has only been implemented in the form of complete sell-off in EW. Elsewhere the more muted concession option has been adopted and even then has often been difficult to achieve due to the indifference of investors. This suggests then that there is by no means an inevitability about all countries becoming as financialised as EW.

However, if we trace back the origins of financialisation to the declining purchasing power of labour leading to an increase in credit-fuelled consumption, the post crisis reforms are likely to restrict the expansion of consumer credit as an avenue for expansion for the financial sector. Falling incomes and controls on retail banking are likely to limit the profitability of boosting consumption credit and trigger alternative avenues for financial profiteering. In South Africa, the structural shifts have been dominated by the emergence from apartheid in the 1990s. The evolution of financialisation has been less about credit expansion and a transition to privatisation but more around privatisation, commodification and financialisation as starting points, particularly in the provision of housing, with contestation around these processes. The case studies shed light on emerging avenues for investment finance with safe investment opportunities unfolding in property investment and infrastructure finance. EW water has been the subject of extensive investor interest as it provides a secure stable income stream which can be securitised and this is often the case with much private sector infrastructure investment. Note that such an outcome needs to be facilitated by the state with supportive policies and permissive regulatory structures. With the role of the state much reduced in terms of provision, there will be greater need for private finance although its benefits are illusory due to the need for repayment from end users or government, the high costs and the reduced transparency in the guise of commercial confidentiality.

New facilities are emerging with the growth of infrastructure finance funds, as infrastructure is an increasingly attractive asset class.[4] According to The Economist, the concern for investors is a shortage of suitable projects and in Europe "a wealth of capital is chasing a dearth of deals".[5] The case studies show that financialisation is clearly on the increase with, for example, highly leveraged buy outs of water companies taking place in Portugal and private financing of some elements of water infrastructure in South Africa.

But as mentioned above, investments will be variegated in the way in which finance engages and will be limited to profitable opportunities only. For example in South Africa, efforts to attract private investment in water have largely failed due to limited profitability of concession contracts. However, finance has been active in providing infrastructure funds for specific segments which have been denoted as "economically viable" via TCTA. So the future will see finance carving out profitable niches either on the basis of geography (for example private investors in the Portuguese water sector tend to be confined to the coastal region) or ring-fenced activity (such as the infrastructure finance for south Africa via TCTA which is tightly structured with a dedicated profitable off-taker for the contract). The state will be left with the hardest to serve.

4.2 Interventions to promote more collective provision

But what of alternative scenarios to such apparently bleak prospects? As argued in our thematic paper for D8.27, it is a mistake to see neoliberalism as a counterpart to post-war Keynesianism that can be reversed with a swing in the balance towards more state intervention. Neoliberalism cannot be reduced to a set of policies that can be reversed. As the above discussion shows, a turn towards Keynesianism policies is simply not on the agenda in light of the way in which globalised, neoliberal financialisation has been deeply embedded within economic and social reproduction.

This section considers the (pre)conditions for the adoption of alternative policies as much as the content of those policies themselves, in view of shifting structures, processes, relations and agencies through which financialised neoliberal provision is now increasingly prevalent.

This is not an easy task as neoliberalism hollows out political democracy with a stranglehold on policies. The institutional shifts, the changes in the structures of political representation and social and economic transformations systematically reduce the scope for the expression of collective interests. Policy options appear to be tied. But what has happened suggests that neoliberalism and the potential for overcoming it cannot be encapsulated in conventional debates in macroeconomics but instead underlying shifts in structures and processes need to be addressed.

A shift to more collective provision will require constraints on the current model and active intervention to promote alternative structures. This will need to be mediated by the state. Given the fundamental causes of the financial crisis and financialisation a starting point has to be to strengthen the labour force. This requires an increase in wages to rebalance inequalities but also needs an increase in the power and reach of unionised labour. The EW water case study revealed the role of labour in sector negotiations. The centre-piece of the regulatory framework of the water sector in EW is a five-yearly price-setting process where stakeholders negotiate key parameters (including price and performance targets) for the next five years. The process involves the state regulator, private water company investors and consumers but labour unions are not considered to be stakeholders. The people that have day-to-day responsibility for the provision of water are regarded in terms of a cost – and one which needs to be lowered in order to increase productivity. Weakening the power of trade unions was an explicit objective of the privatisation programme of the 1980s and the result has been a decline in the share of income going to wages while payments to directors and for financing costs have increased hugely. Meanwhile rentiers are attracting a much larger share of income at the same time as the share going to labour is declining.

A stronger voice for unions would go some way to eroding the unequal distribution outcomes and arguably could be a counterbalance to financial investors, some of which have extracted high returns through financial engineering. However such responses need to be mindful of wider transitions emerging in the social pact, with union power declining more broadly (Culpepper and Regan 2014).

Civil society more broadly has a role to play and has been influential in shaping outcomes to varying degrees across locations, most notably in South Africa. Similarly, constraints on the influence and activities of finance could also improve the balance of power in the provision of basic services. In water, for example, more scrutiny of corporate structure and dividend payments could reduce transfers to the financial sector. However, regulation in general and particularly of finance, has proven to be challenging and to have limited impact which brings us to the next point.

Second, while financialisation has had a significant impact which will continue to unfold, there is scope for at least containing its expansion. A huge literature continues to emerge on the appropriate way to regulate the global financial sector and there is a sense that it is effectively unregulatable. This is borne out in the case studies to some degree. The start of more collective provision can at least come from restricting the ever greater reach of finance into social and economic reproduction. Similarly it is a much bigger challenge to address inequality by taxation of unequal policies than to avoid creating these policies in the first place. Undoing the contracts and privatisations that have been the foundations of financialisation presents significant challenges in terms of cost and legalities as well as political fall out. However, at least putting a brake on further privatisation contracts would stem the advance of financialisation.

Third, media narratives have been strong in portraying the state sector as inefficient and bureaucratic. More collective provision requires a boost to state confidence and greater awareness of the costs associated with financialisation. Ultimately the promotion of more collective alternatives raises major political challenges but we can take inspiration from other locations. EW is notable for its lack of resistance to water privatisation while less profound transitions to the private sector have sparked riots in other parts of the world and a number of contracts for private provision have been terminated with water being renationalised (Kishimoto *et al* 2014). In contrast, the lack of dissent around the financialisation of water in EW is striking. Furthermore, there are examples of effective public provision of water even as close to home as the neighbouring countries within the UK. Both Scotland and Northern Ireland offer examples of effective public water utilities. Privatisation here was never on the agenda. In housing similarly, more collective provision will depend on the balance of the interest groups in the sector. In the UK and elsewhere, governments and the mortgage markets are continuing to emphasise owner-occupation as the default tenure. However tensions are growing with increasing numbers excluded from this process resulting in shifting inter-generational distribution. London stands out as an example of the extremes that can be reached with market mechanisms of property allocation with some high end housing in the hands of overseas investors lying empty and pushing up prices for most of the city. It may be that the extremes of inequality now emerging from neoliberalism will sow the seeds of resistance and be the trigger for political support for more collective and less financialised forms of provision. The unfolding pressures against the adverse social impacts of neoliberalism and financialisation have resonance with Polanyi's double movement. However, opposition to financialisation is limited in scope and fragmented across countries and sectors. At present there does not appear to be political support on a scale sufficient to mount an effective challenge to the dominance of financialisation.

5 Conclusion

Two clear insights emerge from the above. First, change takes decades to evolve. The seeds of reform sown now will only be felt in ten or twenty years time. The neoliberal ideology of today, itself took decades to fully take root. Second, the full consequences are often unintended. Privatisation in EW in the 1980s was not intended to put the water utilities in the hands of Asian conglomerates or offshore finance-owned special purpose vehicles established in tax havens. Similarly the sale of social housing was intended to create an expanded class of owner-occupiers but an ever expanding proportion of former council houses are now in the hands of private landlords and the switch has been from local authority to private rental. Income (and property value appreciation) that would have accrued to the state is now paid privately.

While finance seems to be increasingly entrenched in social and economic reproduction, there are also many examples of more collective provision and of resistance to neoliberal and financialisation pressures (although mostly these are outside the scope of the case study locations for D8.25). Financialisation is by no means inevitable but to alter its path requires a major political shift. To some extent this relies on shifting narratives which in

This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800

turn depends on expanding knowledge bases both of the limitations imposed by financialisation and the strength of alternatives. To this end, the work of FESSUD presents a major resource.

[1] UK, Portugal, Poland, South Africa and Turkey.

[2] There Is No Alternative

[3] Kemble Water Finance Limited Investors Report for year ended 31 March 2014.

[4] "How to invest in infrastructure", The Financial Times, 9 May 2014

[5] "A long and winding road", The Economist, 22 May 2014.

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Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number: 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

This project has received funding from the European Union's Seventh Framework Programme
for research, technological development and demonstration under grant agreement no 266800

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12	Middle East Technical University, Ankara	Turkey
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14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

Published in Leeds, U.K. on behalf of the FESSUD project.