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**From Financialisation to Consumption: The  
systems of provision approach to applied to  
housing and water**

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## Abstract

This paper presents an introduction to the concept of systems of provision (sop) and illustrates some of the core themes by applying the sop framework to the study of the financialisation of housing and water. The sop approach considers consumption to be part of a chain of activity interlinked with production processes. By adopting a vertical analytical structure, the study of consumption (and the consumer) is attached to distinct, and distinctly structured, systems that are commodity-specific. Each sop needs to be addressed by reference to the material and cultural specificities that bring together production, distribution, access, and the nature and influence of the conditions under which these occur. Consumption patterns emerge from a complex web of structures, agents, processes and relations and are specific in time and location. Originally developed to address private commodity consumption, the sop approach is widened in this paper to address the delivery of essential services, in which the state often plays a significant role. The paper shows that the role and impact of finance and financialisation within these sectors can only be understood by locating these within the integrated chains of activity. The resulting analysis provides a rich and complex understanding of consumption, which is anchored in reality, thereby creating a more useful and appropriate basis for policy than other approaches, whilst critically synthesizing from them.

**Keywords:** systems of provision, consumption, material culture, housing, water, financialisation

**Journal of Economic Literature classification codes:** H4, L95, R31, R38, P16, P10

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## 1 Introduction

This paper provides an introduction to the concept of “system of provision” (sop). It has been drafted for the EU-funded project: Financialisation, Economy, Society and Sustainable Development as part of Work Package 8 which is titled: Finance, Real Economy and the State. It is intended as a prelude to the implementation of case studies on housing and water in five countries although the paper has been drafted to serve as a more general contribution.

The sop approach presents an alternative perspective to orthodox understandings of consumption. In contrast to neoclassical economic theory, where consumption patterns are assumed to derive from the aggregated decisions of rational, self-serving individuals, the sop approach sees consumption as inherently linked to the chains of production which, in turn, are shaped by many parameters including social, political, economic, geographic and historical factors.

Furthermore, the sop approach rejects the notion that different disciplinary perspectives on consumption (for example, from economics, sociology, psychology) can be collated to derive a general theory universally applicable to all goods as is often found, for example, in various forms across marketing studies. The sop approach, in contrast, is built on a vertical analytical framework in which the study of consumption (and the consumer) is attached to distinct, and distinctly structured, systems that are commodity-specific.

The sop approach also incorporates and addresses the role of material culture. The material properties of a good or service fundamentally affect consumption patterns (for example water has different material attributes from housing) and goods and services are imbued (often subtly) with cultural significance. For example, there are certain cultural associations attached to private provision of essential services such as health and water. Owner-occupied housing has different cultural meanings than privately-rented tenures. For the narrowly-defined physical characteristics attached to provision, and consumption, are necessarily culturally endowed in the widest sense. Such cultural content is also subject to wider considerations that range far beyond the immediate provision of the good itself (such as gender, class and nationality). Each sop needs to be addressed by reference to the material and cultural specificities that take account of the whole chain of activity, bringing together production, distribution, access, and the nature and influence of the conditions under which these occur.

The sop approach offers considerable advantages over traditional approaches to consumer theory largely because it is firmly anchored in real world practices. To achieve this requires recognition of the complexity and diversity of goods and of the societies in which they are consumed. By locating consumption in the context of a

chain of processes and structures brought about by relations between agents, the sop approach opens the way for a more grounded interpretation of policy impacts and outcomes. Originally developed in the early 1990s and then applied to food and clothing industries, this paper shows how the approach can be applied to government consumption and public sector sops, pssops, in particular.

When it comes to practical application, sop does not offer a blueprint because by its nature, each sop is different and specific. The application of the sop approach in practice is heavily inductive not least in determining where one sop ends and another begins. A sop is, potentially, huge if all aspects of material culture and production are connected to consumption. In practice, the way a sop is identified depends on the research question at hand. Given the focus of the EU research programme, of which this is a part, the sop analyses here are angled towards the role of finance and financialisation in the delivery of housing and water. This paper is intended to raise issues that are expected to be of significance in the forthcoming case studies rather than specifying the sops themselves.

This paper is organised as follows. The following section sets out the concept of sop in more detail, with particular attention to the factors that shape cultural systems. The pssop is introduced in relation to social policy, and the issues involved in the practical specification of sops are reviewed. Sections 3 and 4 look at the sops for housing and water, respectively, drawing on experiences in the UK, before section 5 concludes. The overviews of the sop for these two sectors have significant parallels and contrasts, demonstrating that the sop approach incorporates key themes and issues across sectors but their relevance and application will always be case-specific.

## 2 An overview of the systems of provision approach

### 2.1 SOP – origins and inspiration

A system of provision (sop) for a good<sup>1</sup> is understood as the integral unity of the economic and social factors that go into its creation and use. Each sop is seen as distinct from, if interacting with, others and to vary significantly from one commodity (or commodity group) to another. The sop approach, then, examines consumption in terms of commodity-specific chains of provision, appropriately acknowledged in popular discourse and understood as food, clothing, energy, housing systems, etc.

The sop approach was originally developed by Fine and Leopold (1993) in a comprehensive response to the perceived failings of consumer theory across the

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<sup>1</sup> The sop approach was initially developed specifically for commodities for consumption but it can be applied equally if mindfully to non-commodity provision. In part, this might be justified by the “mimetic” forms taken by non-commodity “sops” especially in view of their location within capitalism and the greater or lesser pressures towards commodity forms and calculation.

social sciences. At one extreme, the orthodox approach to consumer studies has been built on neoclassical economics where the processes of production are assumed to be “harmoniously and efficiently linked through the free play of the market mechanism” (Fine and Leopold 1993, p.20). Individual utility is both a determining explanatory factor and a desirable outcome giving rise to the idea of consumer sovereignty. Production systems are assumed to respond to the whims of consumers. According to Fine and Leopold (1993, p.20):

“The system of production responds as a servant to the needs and wishes of consumers subject to the availability of resources. In this sense, consumption can be traced back from the individual, through exchange, to act as a determining moment upon production – even if allowance can also be made for distortions in efficiency and competitiveness along the way”.

Neoclassical economics, then, conceives of reality as a departure from an idealised equilibrium (with deviations accounted for by monopoly, externalities, merit goods etc). Essentially the starting point is a pro-market position and specific goods are examined in terms of market imperfections. This approach is built on a raft of unrealistic assumptions, taking as its model the perfectly competitive industry with well-informed consumers and rigidly formed or inherited preferences and meanings of goods in and of themselves and to the consumer.

Within neoclassical economics, but at the other end of the spectrum from consumer sovereignty, are approaches where monopolistic producers predominate over consumers, not only through pricing but also through heavy dependence on manipulative advertising. Theories of consumption within mainstream economics have also been attached to Keynesian considerations of aggregate effective demand. In a way, though, this reflects a failing of more micro-oriented studies in which the understanding of consumption is generalised and universalised across different goods. Little or no account is taken, even on its own terms, of why, for example, some goods may be more subject to consumer sovereignty than others and why some might be more subject to sacrifice over economic cycles (although such difference always forced themselves into consideration once engaging in empirical work).

The other extreme in consumer theory, taken as critical point of departure by Fine and Leopold, was the exploding presence of postmodernism across the social sciences in general, other than economics, and its overwhelming presence in an expanding consumer studies on these terms in particular. Whilst for neoclassical economics, the subjectivity of the consumer has been tied to a mechanically-applied optimisation of a given utility function (across objects of consumption with given meanings), the postmodern consumer is subjectively capable of endless and unlimited reinvention of the objects of consumption and own identity. In this parallel universe to orthodox economics, reference to the material properties (and

provisioning) of commodities tends to evaporate by giving way to deconstruction of the meaning of consumption to the consumer and the latter's own inventiveness.

Between, these two extremes, Fine and Leopold also found a common set of deficiencies across consumer theory more generally. First, the study of consumption had been heavily organised around a disciplinary division of labour to the extent that one or more 'horizontal' theories were applied within each discipline – utility theory for economics, semiotics for postmodernist study, emulation and distinction for sociology, and so on, usually with commodity-specific consumption taken as a universal and generalisable norm (it is no accident, for example, that the postmodernist invention of the deconstructing consumer would focus on the more fantastic as opposed to the more mundane items of consumption and those subject to heavy advertising or cultural prominence, the better to be able to deconstruct). In formulating the sop approach, the idea was rejected that these separate, generally mutually inconsistent (by method and concept), horizontal theories could be stacked to give a general theory universally applicable to all goods (although that is how consumer or marketing studies might be conceived with their appetite for combining different approaches for the practical purposes of selling goods or working out, however successfully, which marketing strategies work and why). The sop approach, in contrast, is built on a vertical analytical framework in which, as already indicated, the study of consumption (and the consumer) is attached to distinct, and distinctly structured, systems that are commodity-specific.

Second, then, it was recognised that the varieties of factors that make up the study of consumption across the social sciences could be integrated, if only inductively according to their weight of presence, mode of combination and specific (historical and social) context as well as incidence across society. There are, for example, different issues for consumption by reference to gender, not least in clothing, and the factor of fashion correspondingly has a different presence for men and for women. Further, the water system is different from the housing system by virtue of what is provided as well as by national and other contextual considerations.

Third, the approach initially drew upon the example of a particular sop, the UK housing system as addressed by Michael Ball. His work from the mid-1980s took its point of departure from two aspects of the contemporary literature. On the one hand, there was a major preoccupation with the role of landed property in the housing system (drawing upon rent theory). On the other hand, the issue of forms of tenure was also extremely prominent. Ball persuasively argued that these issues needed to be located in relation not only to one another but also to the chain of activity running from access to landed property through the processes underpinning provision of, and access to, housing by consumers. Such an approach to the housing **system** suggested that other items of consumption should be similarly regarded as belonging to integral chains of activity that were specific to themselves. In this way, the conundrums associated with different disciplinary approaches to consumption could be resolved by attaching consumer theory to specific sops rather than

overgeneralising horizontally. By the same token, as already emphasised, each sop takes on its own features to be discerned empirically.

Finally, the aim was to place emphasis upon **norms** of consumption. On the one hand, these involve not average but different levels or quality of consumption by socio-economic stratification. On the other hand, norms of consumption interact with the how as well as the what of provision, linking consumption (or living standards) to the sop itself.

More recently, especially in Fine (2002) in an updating of Fine and Leopold to take account of developments in the field of consumer studies, the sop approach has been influenced by, and responded to, the concept of material culture.<sup>2</sup> With reference to the study of consumption, material culture has emerged in response to the rise of neoliberalism and a corresponding waning of postmodernism in which discursive practices have become increasingly perceived to be a consequence of material circumstances (as well as giving rise to a proliferation and sequence of post-postmodernisms of various hues). As a consequence, the sop approach has no longer sought to present itself in terms of departure from the two subjectivist extremes of rational choice and postmodernism but has focused on how to address the relationship between the material and culture in terms of the practices and meanings associated with consumption and the relationships between the two. It is not just the factors involved in the delivery of a service or the inputs into a good that constitute the sop. Also relevant is the culture and meaning with which a good or commodity is associated, to both consumers and providers alike. Goods and services have cultural significance associated with modes of provision, as has been readily recognised in terms of the meanings of water contingent upon public or private delivery systems (which are themselves each subject to considerable variation).

A key example of the way in which our relationship with goods, services and commodities is culturally and socially dependent is demonstrated in the paradox of the recent parallel expansion of both unhealthy diets and healthy eating campaigns. This demonstrates that there is considerable complexity in the way in which information is translated into 'knowledge' and culture, and these in turn into behaviour. The provision of a good or a service or of information does not necessarily mean these will be used as intended or anticipated. The sop approach recognises that the cultural perceptions and identities of the users will be significant in the consumption and production processes, and these are heavily influenced if not rigidly determined by the material practices attached to the corresponding sop.

The cultural content of a good is related not only to the material system of provision but also to wider cultural influences (gender, class and nationality). Each sop is attached to its own integral cultural system and this cultural system derives content

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<sup>2</sup> For more on the material culture of financialisation, see Fine (2013) MCF paper submitted for WP5.



from each and every material aspect of the sop but in ways that are not rigidly predetermined. This represents a departure from the culture that might be associated to the commodities themselves to explore the underlying factors that shape the ways in which cultures are determined. In this analysis, consumers are reflexive. They are not passive recipients but are active collaborators. The factors that shape cultural systems have been grouped by Fine (2013) under ten headings (known as the 10 Cs) and these interact with each other in complex and diverse ways as follows:

1. Constructed - the cultural systems attached to consumption are constructed in that they are influenced by the material practices of the sop. Commodities have associated meanings for consumers, which may be variably responsive to what they know of the chain of provision, and its distinctive material properties. These may also be subject to change and to manipulation (eg drinking a particular brand of bottled water may project a certain image as well as quenching one's thirst; buying a house in some locations may be a financial investment as well as a place to live).
2. Construed – objects of consumption are endowed with qualities construed by consumers. These can float free from the material properties of the objects themselves. The process of construal is influenced by a multiplicity of factors and these are derived from context. Sources of experience and knowledge are reacted to or against and imbued with meaning rather than simply received passively by the consumer.
3. Commodified - to greater or lesser degrees, cultures may be influenced by commodification even if the good is not. In the UK, even supposedly non-commodified services such as the health service may be understood in commodified terms with, for example, pressure for greater cost efficiency, or non-commercialized aspects of a good used as a selling point (eg home-made). The process of commodification serves to frame alternative ways of thinking and interpreting what is consumed.
4. Conforming – regardless of what choices the consumer makes, meanings to them are influenced by the circumstances of provision, whether social as opposed to private housing is seen as a right or as a dependency for example.
5. Contextual – cultures of consumption differ in time and place and what is consumed is not only located in specific circumstances (high or low price, good or bad quality) but these are associated with particular and variable meanings to the consumer (for example, an item of clothing may have different significance depending on the situation). One person's necessity may be another's luxury and the distinction may change over time, location and across income levels.
6. Contradictory – different agents and forces compete to give content to the cultural systems and these may provide a stimulus in opposite directions (eg compulsions to spend and to save; to eat and to diet).
7. Chaotic – material cultures draw together (or not) a multiplicity of practices and influences across a multiplicity of dimensions which are reflected on by households going about their daily life and so will be riddled with inconsistencies.



This does not mean that there is no rationale but that these may differ and lead to tensions and unpredictable outcomes.

8. Closed - there is unequal participation in a sop and unequal and differentiated roles in constructing cultures (eg in the financial sector, while everyone may be involved, the process of intervention is both by and for an increasingly powerful financial elite with a corresponding loss of democratic accountability and rise in inequality; eg trade-marking standards, branding, regulations all shape cultures but only a select few are involved in their making).
9. Contested - different cultures of consumption may come into conflict for example with the Occupy movement or with global protests against privatization of water. Contestation may also occur in the terms of the conditions attached to the material practices along the sop chain.
10. Collective - contestation is usually collective. While individuals may carry out acts of dissent, collective action is likely to be a more successful form of contestation.

The relevance and usefulness of the different Cs will vary depending on the type of good, the sop and the reason for which it is being investigated. For each sop, consumption is, by virtue of material provision and material culture of consumption, differentiated in its own way in terms of socio-economic and socio-cultural characteristics. Patterns of consumption will be affected by gender, age, income level, location, occupation and (un)employment, race and ethnicity and so on, but in different ways and with different outcomes according to the specific sop itself. As a result, the norms of consumption specific to each sop need to be identified with a subsequent corresponding explanation for how these are reproduced or transformed, and the differentiated meaning to which consumption norms are attached.

To summarise, then, the sop approach offers considerable advantages over traditional approaches to consumer theory largely because it is firmly anchored in real world practices. To achieve this, requires recognition of the complexity and diversity of goods and of the societies in which they are consumed. By locating consumption in the context of a chain of processes and structures brought about by relations between agents, the sop approach opens the way for a more grounded interpretation of policy impact/outcomes.

However, the approach is heavily inductive in application, leaving researchers to identify particular sops in practice. Given its inductive nature, the application of the sop approach in practice is not simple, not least in identifying where one sop begins and another ends. Indeed, there has been debate over whether the approach is legitimate at all given the interactions across different sops, whether within broader groups such as food systems as opposed to sugar, meat and dairy systems. In a sense, this is to revisit the horizontal/vertical dualism in the study of consumption. This is itself acknowledged within the sop approach by both seeking to identify integral forms of provisioning whilst also acknowledging that these interact with one

another. Sops also share common horizontal factors even if integrating them differently in extent and manner, at both national and international levels and across conditions such as equity and quality of provision, labour market conditions and macroeconomic impacts. However, as suggested, these are different for different sops and so need to be examined within the framework of the sop approach.

The sop approach is also methodologically and theoretically open to a considerable degree although this does not mean that it is analytically neutral. Indeed, it definitely rejects many other approaches, not least where they are inconsistent with the sop approach's more open stance (as against the demand theory of mainstream economics for example). Finally, if to some extent easing rather than impeding application, the sop approach allows for incorporation of other lesser comprehensive elaborations of production-consumption relations, in particular picking up and incorporating contributions that focus upon particular elements of the sops themselves. This might, though, involve transformation in the understanding of these elements in and of themselves and by virtue of locating them more broadly within the sop approach (as with advertising for example and emphasis upon who advertises what and why and not just how as with semiotic treatments).

The way a sop is identified depends, to some extent at least, on the question at hand. For research purposes it is usually necessary to shine a spotlight on the elements of the sop that are of particular relevance to the issue under consideration. Ball's structures of provision approach originally served to argue that researchers interested in the incidence and impact of state subsidies on housing outcomes, especially distribution, needed to take into account considerations beyond tenure balance because the way that housing was provided determined the characteristics of different tenures. This is not the same as saying that *every* element in the chain of provision plus every relevant contextual or 'horizontal' factor needs to be thoroughly investigated before questions of subsidy and distribution can be addressed. Similarly, in investigating housing and financialisation, some elements of the housing sop will be more relevant than others (which is compatible with recognising interlinkages and mutual determination). Some important elements of the sop (such as Housing Associations, DIY, repair and maintenance, architecture etc) may not be covered in this study. Similarly for water, the focus will be on interlinkages and distributional outcomes from modes of financing. Important components of the water sop, such as river basin management, hydrology and climate change, will not be addressed.

Significantly, the sop approach was described over a decade ago by Leslie and Reimer (1999: 405) as "perhaps the most comprehensive elaboration of production-consumption relations", and as has also been seen as one of the main approaches to the study of consumption, and cited as such in Jackson et al (2004, p. 8). It has also been adopted in an OECD study, OECD (2002, p. 8):

To analyse the key forces shaping consumption patterns, the report use the system of provision framework. The systems of provision approach analyses consumption as an active process, with actors seeking certain lifestyles, and constructing their identity by selective consumption and practices. The “systems of provision” is defined as the chain that unites particular systems of production with particular systems of consumption, focusing on the dynamics of the different actors (producers, distributors, retailers as well as consumers). In this light, it becomes clear that by the way governments design and transform energy, water and waste systems can either enable or obstruct household behaviour towards sustainable consumption.

The *systems of provision* framework for understanding consumption patterns stresses the importance of exploring the mechanisms that shape everyday practices related to commodities and services and the extent to which they can be seen to support or impede sustainable consumption behaviour. In this light, household consumption is not the sum of individual behavioural patterns, each consciously motivated and evaluated by the actor. Instead, household consumption is a whole set of behavioural practices that are common to other households ... They are social practices carried out by applying sets of rules and shared norms. They are also connected to production and distribution systems (technological and infrastructure network) that enable certain lifestyles that connect consumers to one another.

Such is an apt description of the sop approach.

## 2.2 Public Sector SOP

The sop approach was originally devised as an alternative to theories of consumption that were entirely focused on private demand and supply although it was noted how traditional approaches tended to overlook public sector provision for individual or collective consumption. Effectively all government provision tended to be seen as equivalent to private provision or seen as distinct from (private) consumption altogether by being alternatively designated as social policy and/or as belonging to the welfare state. But such goods and services can also be understood as being attached to their own sop. A theory of social policy must accommodate a variety of structural determinants, how they interact across agencies, processes, relations and institutions to give rise to a diversity of shifting outcomes. The conceptual gaps in consumption theory apply equally, if not more so, to provision within the public sector. Applying the sop approach to modes of public provision gave rise to what Fine (2002) has termed the public sector sop or pssop approach (Fine 2002).

However, virtually all sops incorporate some element of public sector involvement or regulation as even private provision cannot prevail in a totally disembodied market. The extent of public sector involvement varies considerably across countries even for the same good. Thus, for example water is provided entirely by private companies

at present in the UK but is subject to state regulation of tariffs and quality. Other countries have water delivery services that are entirely within the public domain.

The extent of state involvement varies, not just in terms of provision but also with the state as regulator and / or provider of finance. The state can be involved in varieties of ways along the chain of provision, reflecting both material and cultural, including political, factors. These have been expressed traditionally in terms of factors such as aspirations for universal coverage (as with health, education and housing) or as a response to market imperfections whether as externalities or economies of scale and scope. For many pssops, with the objective of universal access or provision, there are significant issues of production and distribution, with corresponding issues of spatial differentiation in provision whether for water or housing, for example, with corresponding interactions with other elements of social construction of space in light of standards of public and private provision of social and economic amenities.

While broad trends are observed, there is considerable diversity in public sops. Housing is different from education, for example, so that different principles and issues in delivery will arise. The essence of the sop approach is that each element of the sop is attached to an integral and distinctive system – the health system, the education system and so on. Recognising diversity allows greater understanding of the issues which are historically specific and depend on comparative location. As mentioned above, orthodoxy takes a market stance and interprets decisions as to the respective roles of the public and private sectors in terms of market and state failures. So, for example, externalities may require state regulation. However, the nature of such 'failures' is sector-specific and requires a deconstruction of the nature and attributes of a good or service

As with sops, consumption from pssops is also differentiated by socio-economic and socio-cultural characteristics that cannot be determined in advance in terms of which of these characteristics are liable to be salient. They can range over gender, age, income level, location, occupation and (un)employment, race and ethnicity and so on. As a result, the norms of consumption specific to each (ps)sop need to be identified, with a subsequent corresponding explanation for how these are reproduced or transformed, and the differentiated meaning to which consumption norms are attached. Thus, there is not only differentiation in access to, and quality of, housing by forms of tenure but the meaning of housing to occupants is different, and potentially changing, across and within these forms of tenure. On the other hand, in case of water, it is the greater degree of homogeneity in access and quality (if not always use) of public supplies that provides the basis for privatised forms of bottled water as a form of consumption distinctive from the tap. In short, according to Fine (2013), "the sop approach has the advantage of potentially incorporating each and every relevant element in the processes of provisioning, investigating how they interact with one another, as well as situating them in relation to more general systemic functioning. This allows for an appropriate mix of the general and the specific and, policy-wise and strategically, signals where provision is obstructed,

why and how it might be remedied. This is in contrast to unduly focused approaches, those that emphasize mode of finance alone for example, as has been the case for housing both before and after its current crisis (as opposed to emphasis on who is building what, how, and for whom, with what means of access). At the opposite extreme are unduly universal approaches such as those that appeal to market and/or institutional imperfections, and which accordingly fail to recognize that water provision is very different from housing provision in and of itself as well as in different contexts.”

### 2.3 Finance, Financialisation and PSSOPs

With neoliberalism in general, and privatisation in different forms in particular, finance has become increasingly prominent in accounts of both sops (not least in use of credit as a means to fund consumption) and pssops (extent and forms of state financing for example). Where there is a perceived welfare element to delivery, the issue of finance inevitably raises corresponding issues of subsidy and equity that are liable to be contested. But it would be inappropriate to confine such issues to their redistributive role alone. As is readily apparent, the extent of privatisation and financialisation of pssops is highly diverse across sectors and countries. So there is differentiation by these factors alone in the pssops. But, equally, how such differences in these factors affect outcomes is diverse contingent upon how they are located within the pssops as whole. There have been, for example, differences in mortgage finance across countries and difference in how these have affected overall levels and access of provision. Locating sops in social policy brings in wider issues such as income transfers (or subsidies including tax relief and means tests) but state financing features in the delivery of many goods, not just social policy, including for example agriculture. Bringing sop into areas with state financing and subsidy requires inquiry into the role of the state and the effectiveness of its redistributive and other functions.

Along with the chains of production, the chains of finance are also significant in the sop. For example, privatisation has been promoted as a source of additional investment finance. However, private investment can be costly for the state due to the need to repay private financiers with a profit margin. The UK experience of Private Finance Initiative shows how private capital has benefitted greatly from subcontracting of services that were previously provided by the state. Finance is a major factor in the relations of the different elements of the sop. The presence or intervention of finance shapes processes of provision and the behaviour of other agents. More than this, however, financial agencies are often proactive in trying to shape sops in favourable directions, as is most obviously demonstrated by the aggressive promotion of owner-occupation and mortgages by the US subprime mortgage lenders.

Financialisation in the past three decades has transformed public provision in many sectors and locations into a private asset, from the sale of social housing to the privatisation of water. The result is that provision is subject to the vagaries of

stockholder and asset value, which has encouraged speculation, sell-offs, and sub-contracting at the expense of direct production.

There is, furthermore, some purchase in addressing social policy (and its privatisation) not only where there is material provision (as with education, housing, etc) but also where there is not, other than indirectly, as with pension funds and social security for example. This can be done, though, in a sense, by “top-slicing” the pssop approach and applying it without the underpinnings of the sectorally-specific system of provision itself. This depends on whether two crucial but dependent elements of the (ps)sop approach can stand alone in general and for specific elements of social policy. These are appeal to “consumption” norms and application of the 10Cs in addressing the cultures of social policy.

Such an emphasis upon the pssop approach for social policy even has some appeal for elements that are primarily income-based, especially pension provision, not least given the need to explain both different levels of provision and different forms of provision (as privatisation proceeds). It also has the advantage of critically departing from the two main ways of approaching social policy currently – the welfare regime approach of Esping-Andersen and the new welfare economics arising out of mainstream, imperfect-information economics (with each emphasising risk in its own way).<sup>3</sup> From the perspective of the pssop approach to social policy, both of these suffer, if in very different ways, from unduly homogenising over contextually-specific policies and practices that are differentiated by programme and country. This is so whether by appeal to ill-fitting ideal types of welfare regimes or more or less efficient incorporation of marginalised if optimising individuals into a situation of one type of market imperfection or another. Moreover, both implicitly eschew earlier political economy approaches to social policy and the welfare state that locate it in terms of the contradictory tensions between economic and social reproduction.

## 2.4 Specifying SOPs in practice

In principle, each sop needs to be addressed by reference to the material and cultural specificities that take full account of the whole chain of activity, bringing together production, distribution (and access), and the nature and influence of the conditions under which these occur. Even at the level of empirical narrative, this leaves open some degree of ambiguity and choice. In part, this is because of the already indicated need to identify the scope of individual sops themselves. Thus, for example, private and public housing may not be integral with one another, as may be the case with private rented and owner-occupation, even though each will share some of their elements in common. Similarly, bottled and piped water will almost certainly be perceived as belonging to separate, if overlapping sops. In addition, even if the sop itself, and its elements, has been empirically identified, possibly uncontroversially, it is still open to be understood in very different ways both within

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<sup>3</sup> See Fine [2012].



and across disciplines, conceptualisations, methods and theories. Once again, our approach remains open in this respect (other than to approaches that are not open and especially if deterministic as with, for example, appeal to the optimising behaviour of individuals characteristic of mainstream economics). As a result, we draw freely upon standard ways of conceptualising and theorising across the social sciences by appeal to the following general, overlapping categories :

- i) **Structures** – broadly, this includes the historically-evolved and socially-specific institutional forms of provisioning, not least patterns of ownership, control and delivery. There may be structural divisions between public and private supply as well as demand, structures in access by price and quality, and so on.
- ii) **Processes** – each sop is shaped by the interaction of the activities of labour and consumers, of service providers, of the state but also by wider processes such as commodification, decentralisation, globalisation, commercialisation and so on. It may be that a public sector structure of provision is subject to the process of privatisation so it important to specify the dynamic of each sop, how its structures and processes interact and may be in tension across and with one another.
- iii) **Agents/agencies** – sops are determined by the participants in the processes of production through to consumption. Incorporated are those who produce and those who consume but also wider bodies such as trade unions, consumer groups, regulators and those who affect delivery of finance, investment, technology and so on. Agencies reflect and interact with both structures and processes, again either reproducing or transforming in tension or conformity to one another.
- iv) **Relations** – structures, processes and agents/agencies are necessarily far from neutral, contingent upon who exercises power, and how, and with what purpose (and meaning to participants). So the relations upon which (ps)sops are founded are differentiated by the roles of capital (or state as employer) and labour in production and other commercial (or non-commercial) operations through to the relational norms by social characteristics that are attached to levels and meanings of consumption. Significantly, the relations attached to, and underpinning, sops are crucial in understanding what and how conflicts arise and how they are or are not resolved.

Clearly, this is not the place to put forward a general framework for undertaking social theory although, at least implicitly, this is to some extent unavoidable. What we have sought to do, however, is to pincer the specification of sops between two ways of framing them. One is to follow the action, as it were, seeking to specify the chain of provision from production through to consumption at a more immediate empirical level. This approach also allows for a synthesis of the literature by locating



what are often partial analyses (dealing with one or more aspects of the sop alone) within the framing of the sop as a whole. The other framing is to follow the chain of determinants across structures, processes, agencies and relations. Each of these aspects of analysis requires close attention both to the integral nature of the sop and to its historical, social and material specificities (water is not housing). In addition, whilst we place emphasis on the integral nature of sops, we are also mindful that a focus can be placed on one particular element for closer analysis, either because it is of immediate concern and/or because it is particularly decisive in the functioning of the sop itself, whether in promoting or obstructing delivery for example. And a particular focus is our purpose here with respect to financialisation with the presumption that the presence of finance will be differentiated across both national sops of the same type (the national water or housing systems) and the same sops across nations. And, whilst this is something to be explained by virtue of the sops taken as a whole, by the same token, the impact of financialisation will be differentiated, irrespective of the weight and form of its presence, dependent upon how it interacts within particular sops as a whole.

### 3 The UK Housing sop and Financialisation

There are some types of agents who will be part of any housing system in one form or another: specifically, those involved in development, those involved in construction (or builders who may or may not be the same as the “developers” as such), those involved in finance, house buyers, house occupiers (who, again, may or may not be identical with the previous agent), landowners, and the state (whose role will be multi-faceted, ranging from setting the basic legal framework within which housing construction takes place to providing housing directly themselves). In addition, other types of agents may play a role depending on the character of the housing system. These include estate agents, planners, housing managers and landlords. However, the character of these different agents, and how they interact and relate to each other, will vary across housing systems and needs to be investigated on a housing system by system basis. What follows is an attempt to give an impression of the sop approach ‘in action’ by providing a summary account of the UK housing sop viewed through the leading prism of financialisation which, whilst possibly suggestive, does not serve as a template or ideal type for other (national) housing sops.

Our current focus on finance means that the analysis below looks mainly at owner-occupation, as the housing system in which the impact of finance has been most strongly felt. It should be noted, however, that the UK, like many other countries, can be thought of as having more than one housing system in that it has a significant, if diminishing, decommodified housing system, the functioning of which differ quite substantially from that of housing provided through the market, as well as a growing private rented sector. While their operation is different, understanding the interaction of these different housing sectors is crucial. The history of UK housing

from the First World War to the 1970s was the history of the private rented sector, suffering from under-investment and rent control, shrinking and being replaced by owner-occupation and local authority-provided housing, which both grew rapidly between and immediately after the two world wars. By the 1980s the private rented sector, having shrunk to less than 10% of total housing, appeared to be decisively marginalised. At the same time, for reasons explored in further detail below, the balance between owner-occupation and social housing began to shift decisively in favour of owner-occupation. The 1990s and early 2000s were an era in which owner-occupation prevailed as the de facto or desired form of housing for the overwhelming majority of the population; an increasingly residualised section of the population for whom owner-occupation was out of reach continued to depend on social housing, and the private rented sector catered to specialist needs such as foreigners and students, or served as a stop-gap for people waiting to buy a house. Since the on-set of the 2007-9 financial crisis, the number of households unable to buy a house and, therefore, living in the private rented sector has expanded, with the consequence that the private rented sector has begun to grow again for the first time since the First World War.

### 3.1 Housing and Finance

Finance is involved in housing throughout the chain of provision, from land acquisition via construction to purchase and even refurbishment. This ubiquity notwithstanding, the most high profile way in which financialisation has impacted on the UK housing system is in the form of credit to fuel housing consumption – in other words, mortgages. Long periods of low interest rates, abundant liquidity and financial deregulation have led to major changes in house purchase finance arrangements since the 1980s, the result of which has been the proliferation of mortgage lending in terms of both mortgage products available and sheer quantities being lent. Part of the reason for this is international – abundant global liquidity underpinned lending while securitisation, the packaging of mortgages into bonds sold on international financial markets, was used, for a while at least, to reduce the risk borne by lenders. Deregulation of financial and especially mortgage markets in the 1980s was also arguably an international phenomenon. Ball et al (1986) and Ball (1990), for example, show that both Germany and Britain underwent substantial changes in house purchase finance arrangements in the 1980s. While these changes can broadly be included under the rubric of ‘financial liberalisation’, one of Ball et al’s findings is that the substance of the changes to house purchase finance arrangements, and therefore their consequences, varied significantly across the two countries. Ball et al argue that the variation reflected differences in the problems with existing arrangements as perceived by policy-makers rather than some sort of uniform move to less regulation: ‘much of the impetus for the mortgage finance revolution arose as a result of growing problems in previous systems’ (Ball 1990, p3). The way the previous house purchase finance systems functioned, the way in which problems with this functioning were perceived by policy-makers, and the particular ways in which such perceived problems were redressed should be understood in the context of the housing systems in the UK and Germany

respectively as a whole. Although financial deregulation is one of the general processes of financialisation, in its concrete realisations it takes specific forms and has specific consequences in different countries.

The most important change in the UK was probably the breakdown of sectoral specialisation of financial institutions. From the time that owner-occupation began to grow in the 1920s to the 1980s, mortgage lending in the UK was dominated by building societies, that is, mutual organisations that were protected from competition by (evolving) tax advantages and restrictions on mortgage lending by other types of financial institution. These restrictions were lifted in the 1980s, in part because the under-supply of mortgages relative to demand gave rise to the widespread phenomenon of quantity rather than price rationing so that it was availability rather than price that was prohibitive for a number of people trying to access a mortgage. Other financial institutions were attracted to the mortgage market by high interest rates charged on mortgages by building societies, in part as a result of their protected position and in part to fund the high interest rates offered on deposits to attract investors. This entry increased competition in mortgage markets, which was manifested through a reduction in mortgage costs and the proliferation of riskier mortgages (in terms of loan-to-value and loan-to-income ratios) and through attempts to increase the market for mortgage products or reduce competition through mergers. As discussed in more detail below, this expansion of mortgage lending was sustained by increases in house prices but not by significant increases in house building.

These changes to house purchase financing arrangements were important, but interest in the interaction of finance and the UK housing sop should not limit our attention to mortgage lending. On the contrary, the defining feature of the sop approach is that understanding this interaction requires account to be taken of the entire chain of housing provision. The reasons, in this context, are as follows. First, finance does not just intervene in the form of mortgages. In relation specifically to the housing sector, the intervention of finance goes beyond mortgage lending. Credit is also required for investment in supply (on which more below) and direct investment in real estate has become an important component of some firms' investment behaviour (Tiwari and White 2010). Furthermore, the greater availability of mortgage lending, in combination with growing home-ownership and rising house prices, has had knock-on effects on consumer behaviour and social reproduction, with mortgage equity withdrawal being used to fuel consumption (Reinold 2011) and house values being treated as a form of insurance or security in old age.

Second, the proliferation of mortgage lending required not only an expanded supply of mortgages but also a corresponding increase in the number of people demanding them. Housing demand does not necessarily or inevitably generate mortgage demand. The former is determined by demographic, lifestyle and labour market factors, while the latter depends on housing demand being expressed as demand for owner-occupation in particular. In Britain mortgage demand was fed not only by a

trend for increasing numbers to own their own homes, but also by patterns of home-ownership in which people tend to move more than once in the course of their lifetimes because of phenomena such as trading up or buying houses as an asset in pursuit of capital gains. Similarly, mortgage supply does not necessarily generate mortgage demand – an expanded market for mortgages had to be created through multidimensional changes. Many (e.g. Malpass 2005) have argued that changes to house purchase finance in the 1980s were accompanied by changes in the culture of consumption of housing; more specifically, by a rise in the culture of owner-occupation. That this happened is something that should be explained rather than assumed, and this is the subject of the next section.

### 3.2 Consumption

The focus of this section is why an expansion of mortgage-lending in the UK since the 1980s coincided with an expansion of owner-occupation. The logic of neoclassical consumer theory is that as mortgage costs fell, and encouraged by discounted sales of council houses under the Right to Buy,<sup>4</sup> people optimising over a fixed utility function adjusted their behaviour towards a new equilibrium in which the level of owner-occupation was higher. Because neoclassical economists take preferences as given rather than subjecting them to explanation or investigation, explicit discussions of demand for owner-occupation are hard to find in the neoclassical literature. However, that housing choices are thought to reflect costs relative to a budget constraint (often involving heroic assumptions about how individuals calculate housing costs) is evident in Himmelberg et al (2005), who measure the rationality of housing prices relative to cost of home-ownership defined as the imputed annual renting cost of owning a home, and in DiPasquale (1999), who approvingly quotes Potepan's analysis of the decision to move home or improve one's existing home in terms of changes in interest rates and income alone.

The neoclassical image of individuals as rational calculating machines ceaselessly adjusting their behaviour in response to changes in costs in order to achieve a more cost-efficient outcome contrasts strongly with the other school of thought that has tended to take the current popularity of owner-occupation in the UK for granted. This is the view argued by Saunders (1990) and echoed by successive governments, that people have a natural and innate desire for owner-occupation. Saunders argues that home-ownership brings constancy, security and comfort that are essential to people's 'ontological security' (which can be roughly summarised as the sense of safety and self-identity).

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<sup>4</sup> The Right to Buy, a signature policy of Thatcher's first government, and one that has been in place since, gave tenants of local authority-owned property the right to buy their property at substantial discounts from market rates based on how long they had been living there. The policy had a dramatic effect on UK housing provision as it meant that large numbers of the better council properties were privatised and that the proportion of the population in owner-occupation increased dramatically. Replacement of council properties transferred to the private sector was low.

In contrast with the neoclassical approach, the sop approach recognises that people's housing decisions are both constructed and acted upon on the basis of a much broader range of considerations than prices and budget constraints. Houses are tied up with people's lifestyles and identities in a way that takes them beyond being merely a place of shelter or an asset. In contrast with Saunders, the sop approach does not take the perceived attributes or characteristics of owner-occupation or, indeed, any other tenure, as given. The ability of owner-occupation to satisfy ontological security or any other human need or want will depend on how that tenure is provided. A further insight of the sop approach is that what people want from their houses and how they perceive the different housing options available to them will depend on both the material attributes that housing acquires through the chain of provision that underpins it, and a wide variety of cultural discourses about housing that mediate between individuals and these material attributes.

To flesh this out, the reasons for the rise in popularity of owner-occupation in the UK that complemented and reinforced expanding access to finance can roughly be summarised under three headings: use-value, context, and discourse. The point about use-value is that the attributes people sought from their home increasingly came to be associated with owner-occupation. This is partly because, as a result of the ways in which housing has been provided historically in the UK, owner-occupied housing often does in practice better satisfy people's housing wants. The systematic denigration of the private rented sector and under-investment in social housing means that owner-occupied housing is often in better physical condition and environment than other tenures. The higher incidence of local authority house building in inner city areas, plus early definitions of standardised housing and 'safe' household types by mortgage lenders, who played a crucial role in the creation of the speculative building industry in the 1930s (Ball et al 1986), have meant that owner-occupied housing is more likely to be suburban, semi-detached and have a garden. The greater ease of access of wealthier people to owner-occupation combined with the way that the residualisation of social housing has concentrated society's most marginalised in social housing means that owner-occupation tends to be in 'better' neighbourhoods.

It is also because the use values associated with housing have changed. Most crucial here is the way that housing has come to be perceived as an asset as well as a home. Here context becomes important, in particular, the way in which the individualisation of welfare made ownership of personal assets more important at the same time as the capital gains available through home-ownership were being promoted. Payne (2012) argues that because of the way in which housing has become most people's main asset, owner-occupation has been a central part of the Thatcherite broader neo-liberal project, which included replacing collectivised welfare provision with greater reliance on the market and encouraging individuals to bear more risk and exercise more choice.

The other contextual point is what was happening to other tenures. Clapham (1996) argues that the fairly rapid recovery of the UK owner-occupied housing market after the crash of the late 1980s in which many were plunged into negative equity reflected the lack of alternative options. With social housing suffering severe excess demand despite simultaneously suffering from an image problem, and the private rented sector limited in availability and desirability after nearly a century of neglect (though this is starting to change now), owner-occupation remained the best option despite many people's negative experiences during the crash. Clapham's argument is a call to consider 'push' as well as 'pull' factors, that is, the extent to which demand for owner-occupation reflects under-investment in alternatives rather than the merits of that tenure. Thus, the decline of collective forms of provision for social and economic reproduction has affected housing both directly, as under-investment in social housing has limited available alternatives to owner-occupation, and indirectly, by encouraging owner-occupation to be a central plank in the creation of an asset-owning society.

Finally, the constructionist turn in housing research in the late 1990s drew attention to the way in which cultures around housing are socially constructed. Without wanting to veer too far down a postmodern path, the approach is useful in reminding us that, partly because people are social beings and partly because they do not have full information about housing conditions, people's housing choices are significantly shaped by public images and discussions about different types of housing. Gurney (1999) applies this approach to owner-occupation by drawing on landmark government policy documents and ethnographic interviews with working class owner-occupiers to argue that home-ownership has been 'normalised' in public discourses about housing and its contingent advantages construed as being essential. The kind of evidence he draws upon ranges from government publications representing owner-occupation as natural and more homely, to publically shared associations between home-ownership and attributes of a good citizen. There is not the space here to go into his analysis in detail but the point is that public images and representations of owner-occupation were an important factor in its rise to dominance.

This is not, of course, meant to suggest that people can be made to believe any old thing – the point of the sop approach is that the process through which people's knowledge is turned into consumption behaviour is complex. The content of the discourse is related to changes in the material provision of housing and must be sufficiently compatible with people's lived experiences that it can serve as a way of interpreting those lived experiences. But there are some degrees of freedom in how these experiences are interpreted and represented, and dominant discourses around housing play a role in shaping this.

In short we might say that both material experiences and public discourses are reflexively interpreted in light of each other. Normalising discourses about owner-occupation emerged in the UK in the 1980s and were accompanied by material



incentives such as low interest rates, financial liberalisation and the residualisation of social housing, while broader economic changes fed the culture of owner-occupation by creating needs that owner-occupation was thought to fulfil.

The understanding of the culture of owner-occupation that has emerged through this discussion can be characterised in terms of some of the 10Cs discussed above (see Section 2). That use values are *constructed* in an economic and political *context* helps us to make sense of the often *contradictory* and *chaotic* meanings attached to owner-occupation. The extrinsic value of generating capital gains co-exists with the way in which the home is valued for its intrinsic properties as a site of constancy and safety, despite the one encouraging behaviour (speculation, climbing up the property ladder) incompatible with the other. Neither is an inherent or necessary feature of owner-occupation, but rather both are created simultaneously as desires and as properties of owner-occupation in response to the pressures of the economic and political conjuncture (in this case, a neo-liberal economy imposes the pressure to be economically self-reliant and entrepreneurial while entailing uncertainty and vulnerability that increases the need for a place of constancy and safety).

Thus far we have focused on the way in which the sop approach to consumption focuses on unpicking the way in which good-specific consumption cultures are shaped by the interaction of image and material content. However, it is also a central insight of the approach that both sides of this interaction are a product of the processes through which a particular good is provided. Particularly important in light of our current interest in the impact of financialisation on the UK housing sector is how to account for sustained above-inflation increases in house prices, as it was this that both helped to maintain increased mortgage lending and helped the asset role of housing become an increasingly important part of its use-value by generating the near-universal idea that housing was a safe and rewarding investment for the future.

### 3.3 Construction

Basic market principles dictate that supply should adjust to meet demand communicated via price signals. This has been violated in Britain where house price growth has zoomed ahead of housing construction over a long period of time. Despite booming property prices in the lead-in to the 2007 crisis, Britain's rate of house-building per head of the population has been strikingly low – less than 1/6 that of Eire, 1/5 that of Spain and half that of the USA. This is reinforced by estimates of price elasticity of housing supply in Britain. White and Allmendinger (2003) estimate the post-war long-run elasticity of housing supply in Britain to be 0-1 compared to 6-13 for the USA. However, neoclassical approaches struggle to move beyond estimating these elasticities to explaining why the responsiveness of housing supply to house prices is so low in Britain. They tend to proceed from regressing aggregate supply data on aggregate price data to incorporating additional variables such as construction costs, planning restrictions and risk associated with bubble



behaviour of house prices in an attempt to explain low price responsiveness and slow adjustment to a posited equilibrium.

By contrast, the starting point for the sop approach is the agents who control production – namely, capitalist building firms – and to examine the conditions under which they accumulate capital. Ball's (1988) ground-breaking work on structures of housing provision highlights two characteristics of housing development that are crucial in shaping the behaviour of housing developers and this work remains relevant today. First, the relative balance between merchant and producer roles of construction firms and, second, the range of agents involved in class struggle in housing production, which includes not only capitalists and workers, but also land speculators and developers, building professionals, financiers and property owners, who are all involved in the competition for profit arising from the creation and existence of housing.

The UK owner-occupied house-building industry is dominated by speculative builders, that is, firms who initiate housing development and acquire land and planning permission themselves, as well as carrying out construction itself. The distinguishing feature of such firms is that they appropriate profits arising from development gain, that is, increases in land values between purchase and sale, as well as from the production process itself. This means that 'turnover of capital for a speculative builder, in short, does not depend on steady production rates, but on successful manipulation of land purchases, development programmes, and building sales' (Ball 1988 p46) in which timing is key – something that has a number of implications for housing construction.

First, speculative builders try to minimise working capital tied up in site production. Production methods and the nature of employment are geared towards facilitating flexibility, leading to simple production techniques using little fixed capital<sup>5</sup> and a casualised workforce. Both of these tend to create bottlenecks during booms, which can limit the price responsiveness of supply. Minimising fixed capital favours renting of equipment, and consequent shortages or inflated rental prices when demand is high; and a casualised workforce means that 'skilled workforces are disbanded and can be difficult to recruit again when needed' (Ball 1983 p. 93). Since the UK house building industry continues to be dominated by speculative builders who face limited incentives to invest in order to increase the efficiency of production, the skills problem in British construction has not been addressed in the intervening years (Chartered Institute of Builders 2010). Ball also suggests that the trend towards greater use of subcontractors increases the risk of bottlenecks and rising input

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<sup>5</sup> Some (Stone 1983) have argued that technological backwardness is inherent to the construction industry because its physical characteristics prohibit 'production line' style rationalisation. However, Ball's analysis shows that 'vertical' rather than 'horizontal' building is used because continuous production would leave firms with large and uncertain financing costs, not because continuous production is physically impossible.

prices: ‘dealing with large numbers of subcontractors ... contractors could end up bidding against each other for an insufficient pool of resources’ (p. 215).<sup>6</sup>

However, the impact of speculative building on housing supply runs deeper than creating bottlenecks. Because speculative builders seek to maximise the gap between initial land price and purchase price (minus capital input and labour costs), land acquisition plays a central role in their pursuit of profit. Thus, second, Ball argues that speculative house-builders often hold large land banks as, by holding large amounts of land in stock, house-builders can respond flexibly to the housing market without having their profits squeezed by landowners charging higher prices for land during a boom. However, this can impede house-building because, as Ball (2002) and Barker (2008) argue, when land markets are tight, housing developers have an incentive to accumulate land banks and extract profit from rapidly increasing capital gains rather than from building and selling houses. Thus, in certain areas experiencing rapid increases in land values, development gain may even be maximised by not building houses at all and, instead, sitting on the land and reaping the benefits as its value escalates. Land banks also serve to minimise entry into the house-building industry as potential new entrants struggle to get access to land. This enables house-builders to function as semi-monopolists, staggering house-building in order to keep house prices high and maximise development gain.

Speculative house-builders in the UK therefore use production methods that facilitate variable output levels, the success of which has depended on land banking, low capital inputs and the skill weaknesses and instability of the building labour force, but not on expanding output in line with price. This goes some way to explaining the high house prices that have sustained high levels of mortgage lending, but the next section turns to land and labour, respectively.

### 3.4 Land

It is common in mainstream economics and political discourse to blame the low price-responsiveness of housing on overly-restrictive planning regulations. The UK’s planning law is argued to be particularly restrictive and complicated, meaning that applying for planning permission is timely and costly, directly delaying and/or deterring housing construction (Barker 2008, Chesire2008). Such considerations should not be ignored. Allmendinger (2010) identifies a marked increase in planning information requirements and costs between 1997-2007 as planning guidance became more ambitious, complex and ambiguous. However, the previous section on

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<sup>6</sup> Ball’s analysis of the implications of these and other characteristics of the construction industry go much further than their impact on the industry’s ability to respond to increased demand for new housing. The other main consequences cited by Ball are limited technological progress in construction and poor quality production resulting from fragmentation of the production process. While these are not directly relevant to understanding the financialisation of the housing market, they do highlight another cost of the current literature’s preoccupation with housing finance. This is that fundamental characteristics of housing provision, such as productivity, technical progress and quality, are left unanalysed.

construction shows that the impact of land and planning on housing supply goes beyond increasing the costs and lead-in time of construction.

It was argued in the previous section that the acquisition of land and development permission is a central part of the process of speculative housing development because a large component of the profits of speculative house-builders derive from development gain, that is, the gap between the initial price paid for land and final sales price of completed houses. Land values therefore have a major influence on the behaviour of speculative builders. The determination of land values is a complex process that depends on economic and labour market development, public infrastructure investment, gentrification and expectations about future housing market behaviour. The planning system intervenes in these processes in ways that are multifaceted. One question is how UK planning regulations interact with a house-building industry dominated by speculative house-builders to shape land values and what the consequences are for housing supply. Another is how land values feed into capital gains for owner-occupiers and therefore sustain higher mortgage lending.

First, tight planning controls, by restricting the land available for development, may increase the proportion of their profits house-builders are able to obtain through developmental gain relative to those obtained through housing production by pushing up land prices and enabling landowners to extract higher rents. Second, and beyond this, however, the planning system plays a major role in creating differentials in land value through public investment. Decisions on the nature, extent and location of public investment projects will have an enormous impact on the viability and desirability of house-building projects and on housing marketability. Simply put, proximity of train stations, good schools, and protected green space will tend to increase housing desirability and therefore house prices, their absence, or proximity of 'bads' such as airports, incinerators, motorways and so on will decrease them.

Third, and arising from the last two, is the politicisation of the planning process. House-builders seek to influence planning decisions in ways favourable to them, and this may not take the form of straightforward competition. As discussed above, large firms often acquire land and development permission without developing the land in order to protect themselves from fluctuations in land costs and reap the benefits of capital gains. (Rydon 1985) argues that large firms may try actively to prevent development permission being granted on nearby land in order to increase the value of their own land (because, for example, houses in proximity to green space sell for more than houses in built up areas).

This tendency for the planning process to become politicised is compounded by the monopoly power that arises when the housing development industry has a concentrated industrial structure, something that Ball (2002) argues is another by-product of complicated planning law. Planning authorities that impose high information requirements favour large firms that can develop the specialist skills

needed to apply for planning permission and benefit from scale economies in attaining planning permission for large tracts of land. Goodier and Pan (2010) find that the top 100 housing development companies build approximately 2/3 of unit completions by the industry as a whole.

Fourth, the impact of the planning system on the land and housing markets is not uni-directional; changes in patterns of landownership and tenure form can have a profound impact on the functioning of the planning system as well. For example, sales of publicly-owned land can have a long-term impact on future options in the provision of social housing, sustaining, if not increasing, future demand for owner-occupied housing. More generally, it has been conscious government policy to replace, as far as possible, public investment in housing and public space with private investment. As a result the planning system has become increasingly subject to the logic of the market and less able to exercise an independent impact on the construction of public space. The planning system has become constrained by the need to accept that development should only occur in places where it is profitable. This subservience to the profit motive strains areas where conditions for profitable house-building already exists and constrains urban expansion programmes because ‘suburban expansion is the only way to get large numbers of owner-occupied houses built by speculative builders’ (Ball 1983 p260). Such effects suggest that the planning system has lost the capacity to rationalise housing provision geographically, feeding housing booms in particular areas and leading the housing market to develop unevenly, with particular, especially urban, areas overheating more than others.

### 3.5 Labour

It was argued above that speculative building firms are under pressure to minimise the amount of capital tied up in production and to be able to respond rapidly and flexibly to changes in housing market conditions. This has favoured the casualisation of labour processes in the construction industry through casual employment and incentive payments and hostility to union organising. As developers have come to operate more like organisers of house-building, using subcontractors to carry out particular pieces of work, a multitude of worker-employer relations appear onsite, which weakens labour’s ability to organise. A recent scandal over blacklisting of construction workers raising concerns about onsite health and safety demonstrates both construction firms’ desire to maintain a casualised labour force and other ways in which corners are cut in production (i.e. through short-cutting health and safety procedures). ‘Lumping’ – the hiring of workers at a single fixed price for a job (and therefore without a normal hourly wage or fringe benefits) – is common in the construction industry.

The casualisation of construction labour should be understood in its broader context of a secular decline in trade union membership across sectors. Direct labour organisations (DLOs, that is, teams of construction workers directly employed by local authorities to carry out council house construction and repair) were forced to tender for their own work in competition with the private sector, which led to a decline in quality of work and output but also removed the pressure arising from an

alternative source of construction employment that was more reliable. Changes in technology, although limited in the construction industry, have also limited the ability of some groups of workers to organise, for example, because of the breakdown of the distinction between craft and non-craft workers.

The other way in which housing relates to labour is that housing is part of the cost of the reproduction of labour power. The expansion of owner-occupation underpinned by mortgages represents an increase in the proportion of the costs of social and economic reproduction that is dependent on interest-bearing capital – a defining feature of financialisation. The extent to which high house prices have fed through into higher real wages has been highly uneven, with implications for welfare and distribution among different groups of workers.

### 3.6 The State

When it comes to the state, the key lesson of the sop approach is not to think of the state as a single homogenous entity or to take a narrow view of the role of the state in housing provision. The state has been in the background throughout the preceding discussion. It implemented financial deregulation, the Right to Buy programme, planning law, and restrictions on local authority house building. It is also, via local authorities, directly involved in day-to-day planning decisions and has been proactive in the promotion of owner-occupation through contributing to normalising discourses as well as through subsidies and other policies. While mortgage tax relief was phased out from the early 1990s, it has been selectively reintroduced in targeted forms since the Great Recession hit in 2007-9.

Interest in the state's role in housing provision often stems from concern about distributive or social justice outcomes. The most obvious way in which the state has an impact on such matters is via the size and incidence of subsidies and tax breaks as well as the character and extent of social housing provision. While these are important, one of the lessons of the sop approach is that distribution and social outcomes are determined not just by levels of subsidy but by the operation of the whole system of housing provision. To illustrate, while investment in social housing as the tenure on which the poorest in society are dependent would have redistributive consequences, some of the most socially regressive aspects of owner-occupation in the UK arise not from the tenure per se or from subsidies attached to it but from the way in which escalating house prices have reduced accessibility and created windfall capital gains for the home-owning section of the population.

In its emphasis on cultural as well as material factors, the sop approach also teaches us to be sensitive to constructionist analyses of the way in which construction of political problems reflects power and influence of different interests. Watson (2009), for example, argues that the UK government response to crisis in 2007 was decisively shaped by a middle class moral panic created around falling house prices. More recently, the current coalition government has introduced policies that they claim are aimed at increasing housing supply. However, the

policies focus on subsidising potential buyers who are on the cusp of home-ownership by, for example, providing deposit insurance. Despite expanding housing supply being the stated objective of these measures, they are clearly constrained by pressure to keep house prices high, which suggests that we should be sensitive to the distinction between what states do and what they say they do.

### 3.7 Conclusion

The expansion of owner-occupation and mortgage lending have been central to the way in which the three main general implications of process of financialisation identified by Fine (2012) have been manifested concretely in the UK housing sop. Fine identifies three general implications: first, influencing conditions of social and economic reproduction, of which social (which includes housing) policy is both a part and a response to; second, exerting an influence on social (and therefore housing) policy itself as a result of its association with neo-liberalism and globalization; and, third, by placing the real economy at risk from financial triggers.

Considering these in turn, expanded mortgage lending and owner-occupation, first, have facilitated the transition to a system in which the costs and risks associated with social and economic reproduction are increasingly borne by the individual. This is true not only in the sense that the cost of accessing shelter is increasingly borne by individuals in the form of credit, but also to the extent that home-ownership has come to be regarded as a form of security and insurance against the costs of old age. Second, expanded mortgage lending is a manifestation and result of broader processes of deregulation and expansion of international finance that are central processes of financialisation. Finally, by creating both a more indebted populace and a complex system of mortgage-backed securities, expanded mortgage lending has increased the risk of financial triggers for the real economy. As Edwards (in Ball et al 1985) observes, property assets are now an important part of the asset structure on which the financial system is secured and the continued valorisation of these assets is, therefore, essential to stability of the system.

## 4 Systems of provision for water

### 4.1 Water SOP - overview

A systems approach to the delivery of water appeals more than for most sectors for the following reasons. First, water consumption can be considered to be circular rather than linear. The chains connecting the different stages in the hydrological cycle are already established – water evaporates and then falls as precipitation, etc. Unlike other goods or commodities, the disposal of water has an impact on the supply so can be considered to be part of the whole production process as water is constantly reused. Second, water is interconnected to all aspects of human existence. All households consume water, and it is a vital input into food, industry and energy. Many aspects of public health are affected by access to safe water. Water both affects and is affected by economic activity. Finally, if more water is



consumed than is renewed, the consequences can be catastrophic, so there are agents involved in monitoring the allocation of water across different uses.

Systems approaches already exist, most notably with the Integrated Water Resources Management (IWRM) framework that aims to promote the “co-ordinated development and management of water, land and related resources, in order to maximize the resultant economic and social welfare in an equitable manner without compromising the sustainability of vital ecosystems.”<sup>7</sup> The rhetoric is that increasing water demand in the context of constant supply requires an integrated approach. Hence, waste water management, water recycling and demand management are increasingly becoming part of policy, and supply side measures alone are not sufficient. More recently the IWRM has been expanded with what is known as the ‘water–food–energy nexus’, for example, in the Bonn 2011 Nexus Conference.<sup>8</sup>

However, the systems approaches mentioned above derive from the need for coordinated ecological management of water but largely fail to incorporate the socio-economic or political economy factors that shape water production and consumption. As a result, policy responses are often limited to addressing what are perceived to be externalities and largely fail to incorporate the full economic and political structures in which they are set, neglecting to take account of tensions between competing interests in the supply and use of water.

In contrast, the sop approach sets the consumption of water and its production (which in turn is part of the production of other commodities) in its historical and social contexts. The sop approach to norms of consumption is proposed here with a view to incorporating the material and cultural in approaching the structures and processes plus the agents and relations between them that are associated with the delivery and consumption of water. While the sop approach aims to articulate a generic framework, the relative significance of the details will vary across locations.

Our concern is with the processes, structures, agencies and relations in the water delivery system. There are other elements of the sop which will not be covered here including hydrology and climate change and the technology of water production. Technological advances have not left old infrastructures obsolete, and some cities have been using infrastructure that is over 100 years old (eg in the UK) (UN Water 2012). What changes over time and space is the way in which these are used.

Water has certain physical properties that affect its sop. Water flows downhill (unless pumped) and as a result sometimes has to be shared across regional and international boundaries. It is heavy to transport relative to value and so is typically used close to source. Delivery is fixed capital-intensive, relying on networks of pipes and pumps that are not easily moveable so investments are long-term. There are

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<sup>7</sup> <http://www.un.org/waterforlifedecade/iwrm.shtml> accessed 26th February 2013

<sup>8</sup> [http://www.water-energy-food.org/en/whats\\_the\\_nexus/bonn\\_nexus\\_conference.html](http://www.water-energy-food.org/en/whats_the_nexus/bonn_nexus_conference.html) - accessed 15th February 2013



considerable scale economies, and delivery is usually monopolistic. The availability of water is unpredictable due to variability in rainfall and is also affected by pollution and climate change. Water is an essential input into virtually all aspects of life, not just in its own right but as an input into industry, agriculture and energy and so access is sometimes contested. As a result of these factors, there is typically a strong role for the state in the water sop, not necessarily as a provider but as regulator and a financier. Increasing efforts to involve the private sector have been affected by these properties of water. Subject to quality variations, water itself is homogenous but its value varies depending on location and use and mode of delivery. Although chemically the same, water in a drought is different from water in a flood. Bottled water is not the same as supply from a public water system. The culture of water consumption is therefore contextual.

The way in which water is provided is fundamentally shaped by the way it is perceived. For most of the last century it was considered to be abundant and delivery was a government responsibility. Since the 1980s, however, a different perception has developed of water as a scarce economic resource that needs to be rationed. This perspective gained considerable traction in what are known as the 'Dublin Principles'<sup>9</sup> the 4<sup>th</sup> of which reads: "Water has an economic value in all its competing uses and should be recognized as an economic good." The principles were adopted at the subsequent World Summit in Rio in 1992 and by the Global Water Partnership and were reinforced in the 1993 World Bank Strategy Report (World Bank 1993). The notion of water as an economic good (and, as such, to a large degree devoid of any historical, social, cultural or political attachments) has become increasingly entrenched in World Bank philosophy and policy.

In contrast to this economic view of water, if equally universalistic as the notion of water as a good, in 2010 the United Nations General Assembly explicitly recognized the human right to water and sanitation (UN Resolution 64/292) and acknowledged that clean drinking water and sanitation are essential to the realisation of all human rights. This means that everyone has the right to a minimum level of water for basic consumption (50-100 l/c/d), this has to be affordable (no more than 3% of income), and people must not be denied access to water on the grounds of income.

The international water rights framework does not per se exclude cost recovery for water services and nor does it stipulate the provision of free water or the public ownership of water supply. But it does specify that everyone is entitled to affordable water for personal and domestic uses. The rights-based approach does not rule out private ownership or delivery but it does rule out costs that make it unaffordable. There is a conflict between a progressive rights based approach which views water

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<sup>9</sup> In January 1992 at the International Conference on Water and the Environment in Dublin, four principles, known as the Dublin Principles were set out as recommendations to guide policy and to reduce scarcity.

as a social good and the commercialised model which treats water as a source of revenue instead of a public service (Dugard 2010).

Countries have varied in the degree to which they have incorporated the notion of water as an economic good into national policy and strategy. Only a few countries have so far enshrined the right to water in national constitutions. Water privatisation, aside from its dubious empirical impact, has attracted fierce resistance in some locations (for example the Bolivian water wars) while it has been embraced in others (UK). The water sop is built on national perceptions and priorities for water. As a result, the concerns around water are different according to levels of economic development and country characteristics.

## 4.2 Finance and financialisation

Water has become increasingly financialised in that the financial, economic and institutional architecture on which service delivery is based has become skewed to support the interests of private financial capital. In some countries, complex financial instruments combined with private sector involvement have evolved to create wealth for a tiny minority (Bayliss 2013 forthcoming). This has not been universal, however, and the extent and impact of financialisation varies across countries.

Water is the least attractive sector for private investors in infrastructure (requiring high investment that will take a long time to recoup) compared at the other extreme with telecoms which generates quick and high returns.<sup>10</sup> In the UK (as elsewhere) expansion of water access in the first half of the 20<sup>th</sup> century was funded largely by the central government via local government institutions. The transition to privatisation was on the basis of an already existing infrastructure. Privatisation was only possible because of pre-existing public investment.

As with scarcity, there is a sense of crisis in water finance with both using the language of sustainability. Even though the private sector has shown reluctance to invest in water delivery (Marin 2009), there are calls to use state finance to attract more private finance into water investment through 'leveraging' and 'blending' (OECD 2010) Ultimately water infrastructure is paid for by public funding or user charges. Private finance needs to be repaid from one of these sources and with a profit.

Infrastructure finance has always been intertwined with capital flows with infrastructure bonds being a core element of the development of modern capital markets (Gandy 2004). However, sources of private finance are becoming increasingly complex and there is a growing emphasis on project finance. Firms

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<sup>10</sup> This has prompted Gandy to refer to a 'concrete divide' which is more significant than a 'digital divide' where urban slum dwellers have access to wifi and mobile phones (where private firms are active) but not to basic water and sanitation.

form a 'Special Purpose Vehicle' (SPV) to borrow non-recourse funds so they are secured by the project assets and paid for with project revenue and stakes in these can become a financial asset in themselves to be on sold as a derivative.

There is an increasing emphasis on the need for full cost recovery in water pricing but there are grey areas regarding exactly what costs should be recovered, and from whom (for example, where leakage rates are high). The sop approach unravels the financial flows in the delivery of water with a focus on equity. The financial trail needs to be traced from central government to end users to establish the paths of revenue among the different agents in the process (state, private sector, end users, labour).

### 4.3 Consumption

Water is used in the following ways: food production (accounting for about 70% of global water withdrawals); energy production (accounting for about 15% of the world's total water use); industry; human settlements and ecosystems. There is a considerable literature on the use of water in these different sectors.

Water consumption has been shaped by changes in the consumption of goods for which water is an input. For example, different types of crops and food production require different amounts of water. Livestock is particularly water-intensive, requiring water at all stages of the production chain. Consumption of livestock is increasing with rising affluence, putting upward pressure on water demand. Livestock production accounts for more than 8% of global human water use (FAO 2006). Similarly, water needs for energy production are set to grow at twice the rate of energy demand reflecting a move towards more water-intensive power generation and expanding output of biofuels (IEA 2012). The 'green economy' is attempting to reduce consumption of fossil fuels but in so doing is providing support for water-intensive biofuel crops which has led to the diversion of water and agricultural land to the production of ethanol and jatropha. These changes in global energy policy as well as technological processes have had a major impact on water and land allocation.

In a transformation of drinking water consumption, many now drink bottled water. Gimeno and Cool (2012) map the origins of the global bottled water industry, which began with reports of health benefits from the consumption of water from a local spring. From this small start a global market has evolved with Pepsi Co and Coca Cola selling purified tap water rather than spring water (Aquafina and Dasani). These companies are battling for global market share in a challenging context as there are many sources of supply, products are nearly impossible to tell apart by taste, and this is a product for which a free substitute exists. Part of the marketing for bottled water is to create mistrust in public water systems.

While, globally, food production accounts for about 70% of global water withdrawals, this varies across regions. Globalisation and international trade mean that water is, in effect, often consumed far from where it is produced. Agricultural water withdrawal accounts for 44% of total water withdrawal in OECD countries but around 87% in India and more than 90% in less developed countries (UN Water 2012). This variation across countries reflects water use but not the nation's water 'footprint' which is defined as the total volume of freshwater that is used to produce the goods and services consumed by the inhabitants of the nation.

The water footprint relates to water embedded in consumption whereas water use assessments are about water use in production within a nation (Chapagain et al 2006). The impact of the external water footprint depends on the regional climactic conditions and production technologies in the producer country in question. The social and environmental impacts are not generally translated into prices of products (WWF 2010). The water footprint concept has been criticized for the notion that all water inputs are identical and the assumption that the water not used for one thing can be effortlessly transferred to an alternative use (Hoekstra and Chapagain 2006). Furthermore the amount of water embodied in a product does not necessarily indicate the amount of ecological strain involved in its production (Frontier Economics 2008). Despite its limitations, the water footprint concept shows that, while the water SOP for countries in the North may appear to be more sustainable because their relative water use per capita is low, this is because they are using water from the south embedded in imports.

In the UK over half of the water produced is consumed by households.<sup>11</sup> Water consumption by households is shaped by demographics, cultural values and access patterns. The production of water has shaped consumption. In the 17<sup>th</sup> Century people rarely washed their clothes or bodies because it was so difficult whereas now this happens daily (Harvey 2012). According to Gandy (2004, p. 366/7), "the spread of the private bathroom marked a new bashfulness towards the body as emerging fashions for washing, hygiene and bodily privacy fostered increasing aversion to human excrement. The modern home became subject to a new moral geography of social behaviour that enabled the development of modern technologies to be incorporated into an 'invented tradition' of domesticity".

In some countries, rapid urbanisation has put considerable strain on water resources in and around cities. Rich households are able to secure access but sometimes the poor are not. Commercialisation processes have introduced tariff structures based on cost recovery and households are often expected to pay the cost of a water connection which many cannot afford (UN Water 2012). The outcome is regressive and the role of the state is reduced with pressures for further "liberalization, deregulation and fragmentation" (Gandy 2004 p.372). Many

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<sup>11</sup> <http://www.water.org.uk/home/news/press-releases/sustainable-water/stateofsector2008.pdf>

governments have adopted policies of commercialisation and full (present) cost recovery. However, this is applied to infrastructure built by the state on historic and written off cost, often to support the economic elite. Subsequent cost recovery policies then, where all households are required to pay the full cost of the services, are biased against low-income households.

Water consumption is shaped by the tariff structure which reflects underlying societal priorities. In the UK there has been a major shift in tariff policy. The country is in the process of a transition to universal metering but at present only just over a third of households have meters. For the remainder, the old charging system is used whereby households pay a flat rate for water based on an imputed annual rental value of their property regardless of how much they consume (Ofwat 2011). The shifting tariff structure reflects a transformation in notions of equity. Now it is considered fair if households can lower their bills by limiting consumption. Previously it was considered fair for water charges to be based on an approximation of wealth (property value). This is a further manifestation of the individualisation of water consumption as individuals themselves can control their water bills. The distributional impact of the shift to greater metering is likely to penalise those in high-density low-value housing.

Despite universal coverage of water in developed countries, many live in what is known as 'water poverty' where households pay over 3% of income on water bills. In the UK (in 2009) 23% of households spent more than 3% of their disposable income on water and sewerage bills and 11% of households spent more than 5%. These were generally those on low incomes often living in social housing (OFWAT 2010a). Like other forms of household debt, water debt is also rising. Over the past five years, the amount owed to water companies has gone up by more than 50%. The cost of recovering the debt has now reached £76m a year and £100m a year is written off for bad debts which adds about £12 a year to every household water bill. According to the regulator (Ofwat 2010b), because households cannot be disconnected for non-payment of water, they pay other bills first.

The notion of water scarcity provides environmental weight for neoliberal efficiency arguments. The fear of water sources running dry fits with the rhetoric of economic efficiency supposedly provided by the discipline of the market. Scarcity provides an opportunity to justify privatization and commercialization especially with apocalyptic references which generate a context of fear and insecurity and provides "both the technical and moral framework to minimize contestation" (Ahlers 2010 p226). This is shown in the media as for example, in the Guardian (20<sup>th</sup> February 2011) report: "'Water poverty' to rise in the UK as scarcity pushes up bills".

## 4.4 Production

Water production is capital-intensive and brings extensive investment in infrastructure together with labour for the production of bulk water and its distribution to end users, usually relying on a vast network of underground pipes as well as pumps and water treatment plants. Infrastructure typically lasts for decades. This means that history is particularly significant in understanding the sop. For example, there is a considerable lag between the prevailing political paradigm and that which produced the infrastructure (Mosse 2008). This is clear in the UK where the governmental bodies that constructed the national water infrastructure have long since been dismantled and replaced with private firms.

Since the late 1980s, many countries have introduced some degree and form of private sector involvement in water delivery. In neoliberal discourse, this is intended to increase efficiency in water production and to introduce private sources of finance. In 2009, a major study by Gassner, Popov and Pushak concluded that privatisation has been successful because of higher efficiency levels in private as compared with public utilities, most notably as a result of reduced employment. However, this (and many similar) studies are misleading. They are based on a one-off snapshot and fail to account for reasons why their observed outcomes may have occurred. In addition, support for the neoliberal paradigm frames the whole debate in terms of private sector goals such as efficiency with little concern for equity or social justice (see Bayliss 2011 for detailed critique).

The sop approach views ownership change – and other elements of public sector reform – differently. Transitions in policies and paradigms both affect and are affected by the interaction of physical and institutional structures and processes. These are facilitated by different agencies, and the outcomes are the result of the interactions between them. These are discussed below using water privatisation and the UK experience as an example. Other case studies may address different elements of sector policy and will raise different issues whilst applying the same broad framework.

### *Processes*

An assessment of the impact of privatisation via the sop approach needs to be anchored within the historical evolution of the infrastructure and the institutions involved. In the UK, for example, the earliest water companies were private but many became municipalised in the wake of public health concerns in the second half of the 19<sup>th</sup> century (Fisher et al 2005; Osborne 2005). For most of the 20<sup>th</sup> Century, water production was the preserve of the state. It was considered to be abundant and the dominant features of water (essential for life, capital-intensive, important agricultural input, monopolistic) were reasons for public ownership and delivery. The state provided investment to ensure universal access. There were cultural and symbolic features associated with the expansion of water infrastructure at this stage (See Gandy 2004 on Paris and Swngedouw 2005 on Franco's Spain).



Bakker (2007) refers to this as the 'state-hydraulic' phase with capital investment driven by welfarism. Drinking water was conceived as a welfare service with critical impacts on public health and environmental quality. There was a level of cross subsidy from rich to poor households with water rates based on property rather than consumption of water. Bakker documents the variations across the state-hydraulic model and shows that the rapid expansion in connections in the UK was funded largely by local governments partly through local taxes and partly through concessional loans from central government (Fisher et al 2005).

Against this background came the global economic crisis of the 1970s which put pressure on state finances. Welfarism gave way to scrutiny of public sector spending. State provision had been premised on 'market failure' but with fiscal constraints, attention turned instead to 'government failure'. According to Gandy (2004, p.374): "Political economic and social developments which gathered accelerated momentum in the wake of global economic turbulence in the 1970s contributed towards the emergence of a set of new configurations between space, society and technology." Water was redefined as a commodity rather than a public good, or as part of welfare, with rights redistributed from social to private property with the help of the market and the introduction of capitalist allocation mechanisms (Ahlers 2010).

Privatisation of water was introduced in 1989 in the UK. Significantly, there was already a substantial amount of publicly-funded infrastructure in place which could be used by the private sector for commercial purposes. The process adopted is unique to the UK with the ten regional water companies floated on the London Stock Exchange. One of the objectives of this, and other privatisations introduced at that time, was to extend the reach of smaller scale shareholders but quickly shares became assimilated in the hands of larger stakeholders. These were initially infrastructure companies but, more recently, British water companies have been taken over by private equity companies in a process of acquisitions which has deepened the reach and dominance of finance in water delivery over the country.

### *Agents*

There are numerous agents involved in the delivery of water at the national level monitoring quality, maintaining environmental standards, regulating service providers, utility providers (public and private), unions, consumer groups. Furthermore there are international bodies such as the EU and the UN that have an input into national water policies.

The process of transformation that water has undergone in the past three decades has led to a change in social relationships. The processes of privatisation and commercialisation have been part of a widespread reorientation of public sector governance towards the needs of private capital. Rather than a provider of strategic



resources, the utility sector was re-conceptualised as a potential source of profit. Water supply provision is reconfigured as a business rather than a public service which should have as its primary goal the maximization of efficiency rather than social equity in the context of the increasing scarcity of water resources.

Privatisation creates new agencies with the introduction of shareholders into the water sop. Clearly there is a potential tension between the priorities of private shareholders and those of end users. For that reason, the state appointed a regulator, Ofwat. The regulator approves tariff increases and monitors the performance of firms. Ofwat does not regulate firm profits but allows price increases based on costs. There have been protests about the high profits made by firms but Ofwat justifies these as follows (Ofwat 2008, p.1): “Just as mortgage providers for homeowners expect a return on the finance (or capital) they lend, water companies must provide a reasonable return to providers of capital. They must therefore make a profit to reward their investors.”

The process of privatisation means that transparency is reduced as information is owned by the private sector and is secret. There are information asymmetries between the regulator and the private firms. The regulator makes decisions based on data provided by the private companies but there is an incentive to misreport and this sometimes comes to light. For example, in 2008, Severn Trent were fined for supplying false information and in 2007 Thames Water were also fined for poor reporting (press reports).

The efforts to achieve efficiency gains, particularly from privatisation, tend to fall most heavily on labour. There is not much that can be done to cut costs of water provision as mostly these come from big investments in infrastructure so the most flexibility is in labour costs. One of the ways that productivity is measured is in terms of staff per 1,000 connections. A reduction in this number is seen as a ‘good thing’ as, for example, in the empirical study by Gassner et al (2009) which found that water privatisation was associated with productivity improvements which was another way of saying reductions in the labour force. The most recent stages of water financialisation are associated with profits accruing to capital while labour is squeezed (see Bayliss 2013 forthcoming).

Privatisation has led to a transformation of attitudes and relationships aiming to delink political and public involvement in water. As a result, notions of citizenship are reconfigured. Citizens have become consumers. They are no longer using collective voice through public policy mechanisms and democratic processes. Instead they are individuals exercising their consumer rights. They are now customers with the right to purchase water as a commodity rather than citizens with the right to a water supply service (Bakker 2007, p.26). Water is removed from the realm of the elected government reflecting political preferences to one where the (admittedly, regulated) market is expected to reflect consumer preferences.

## *Structures*

Water is usually provided through large utility companies which are owned by the state. In France a form of privatisation has taken place where the state owns the infrastructure but it is operated by the private sector. Only in the UK has the private sector taken over ownership. The organisation of these utilities is often according to municipal boundaries (as in the USA). In the UK, regional water companies have been established on the basis of river basins.

Sector reform is usually associated with some kind of unbundling, and with privatisation this can lead to a different form of horizontal restructuring. For example, where elements of infrastructure were managed at the municipal level and so were part of a regional policy framework, these are now segregated and realigned along corporate lines. As with other types of infrastructure, with restructuring, water companies are separated into individual assets that are at first managed by various investors alongside each other. Subsequently there is a period of global interlinking of the same subtype of infrastructure assets.

Privatisation has meant that an investor can build up a global portfolio of infrastructure assets, and these will be managed on similar terms wherever the asset is located, according to the corporate ethos and so to some degree removed from government/municipal control and coordination with local development. This combination of local unbundling and international interlinking of infrastructure assets is described by Torrance (2009) as a consequence of “the shifts in the style of infrastructure provision and the restructuring of socio-spatial relations in cities ... Rather than conceptualizing urban governance as physical and spatial compartments that are managed through local or national governance, the urban configurations of the future will need to incorporate the perspective of both institutional investors and global financial institutions.”

In the water sector, infrastructure companies and financial investors have stakes in water and other facilities across the world. So, for example, in the UK, Thames Water is owned by Australian company, the Macquarie European Infrastructure Funds that has a huge infrastructure portfolio which includes utility investments in China, Germany, South Korea, Sweden to name but a few. But also in the UK the same company has stakes in Bristol Airport, National Car Parks, the M6 Toll Road and many others.<sup>12</sup> Water assets are used as leverage for new forms of economic activity rooted in speculative rather than productive forms of profit generation (Gandy 2004, p. 370).

As Swyngedouw (2005), says, the new accumulation strategies have created a process by which water has become integrated into circuits of global capital: “Consequently, local resource systems become part of the strategic checkerboard of

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<sup>12</sup> <http://www.macquarie.co.uk/mgl/uk/meif>

global companies” (p. 87). Shifting power and responsibility to global private firms divorces water from the local context and makes it more difficult to integrate water policy into wider urban or social policy as water production and distribution becomes incorporated into the global economy and water policy becomes part of global private capital (Swyngedouw 2006).

### *Relations*

Power relations are regarded by several commentators as of crucial significance in water systems and their omission as a major failing of orthodox approaches (Swyngedouw 2006; Mosse 2008; Ioris 2010; Loftus 2009). The interaction between agents is in part related to a perception of who is responsible for the delivery of water. The state-hydraulic paradigm and a rights-based approach are associated with state investment and expansion. The commodification of water, however, is associated with individualism. A study by Mulreany et al (2006) raises concerns that privatisation “lowers expectations of public institutions” (p. 31) not just in water delivery but in wider aspects of public health.

In the UK the push for national water delivery and universal coverage at the start of the 20<sup>th</sup> century had widespread support, and this was attributed to growing awareness of all aspects of deprivation but also awareness of the need to maintain a healthy workforce and social reproduction. For some commentators, the subsequent shift to privatisation and reductions in state expenditure have their origins in the need for private capital to access new sources of accumulation (eg Harvey 2004, Swyngedouw 2005). This theoretical perspective is borne out by evidence that water companies were looking for new markets and actively lobbied the World Bank to promote water privatisation in developing countries<sup>13</sup>.

Outside developed countries, access to water is often an issue of politics and power rather than absolute scarcity. Most cities produce enough drinking water to satisfy human health and sanitation conditions but the available water is distributed in a highly unequal manner (Swyngedouw 2006, UNDP 2006). The problem then is one of purchasing power and control over capital investment. Water access and social power are closely connected. Water access is first and foremost a question of entitlements, of property rights, and of rights to access.

Ioris (2010) highlights that mainstream economists have persisted in the neglect of issues such as power asymmetry and class, gender and race discrimination which have remained out of the debate or have been contained in a secondary agenda of social compensation. He says that the on-going water reforms in Brazil are fundamentally constrained by their connection with systems of political and economic control long-established in colonial times and associated with the ‘patrimonialistic operation of the Brazilian State’ (p. 237). Ahistorical economic

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<sup>13</sup> This observation was made in a personal communication with Esteban Castro and we are still trying to obtain the original source.

models of water neglect that developing new institutions is a complex and contested task – for Mosse (2008, p.948) “one that is never just about water as an economic resource, but about water as a symbol of identity, power and citizenship.” Investigation of power relations will be an important element of the sop approach in terms of who owns and controls water supply, how, and with what prospects for, and effects of, contestation as well as conditions of access.

## 5 Conclusion

The above discussions highlight a number of common threads that can be drawn together to contribute to our understanding of sops. First, sops are complex and context and sector specific, integrating relations across a multiplicity of agents with a diversity of structures and processes. Each sop is unique but that is not to say that there are not cross-cutting themes that can be observed, for example, in relation to financialisation. Although, in principle, the sop approach displays some degree of neutrality towards the theory that should be deployed, and allows for theoretical differences across those who deploy it, the approach is not without theoretical implications. These include a commitment to systemic, interdisciplinary analysis that is able to finesse the relationship between theory and specificity.

Second, the material culture of a commodity clearly affects consumption patterns as shown by the different material nature of housing as opposed to water as well as cultural values attached. Yet, major ideological shifts, for example, towards greater individualisation of society have affected both housing and water.

Third, outcomes are case-specific. The complex web of structures, agents, processes and relations means that the same policy will lead to different outcomes in each location, depending on the prevailing sop in which it is implemented. Fourth, history is significant. For both of these sectors, there is a considerable lag between capital investment and social outcomes. The prevailing state of affairs rests heavily on past political decisions and how these have informed both material and cultural aspects of provision.

Fifth, the state has a multi-faceted role. Its influence goes beyond the obvious interventions such as sector policy. Privatisation does not reduce the role of the state but changes it. In housing, the sop is affected by public investment decisions. Both sectors have been affected by changes in finance policy and practice. The roles of provider and regulator may or may not be clear (and observed) but other state activities affect the sop such as environmental and financial legislation. State subsidies and cross-subsidies, sometime implicit, affect the social equity of policy outcomes.

Finally, financialisation has transformed the sops for housing and water, in the UK and elsewhere. Global financial capital now affects the delivery of these basic services with far-reaching effects. In both sectors, service delivery is now subject to the vagaries of shareholders that are interested in asset values, from the sale of social housing to the privatisation of water. Rather than social equity, it is the speculative on-selling and subcontracting that is of interest.

The sop approach received considerable critical acclaim when first applied to the food and clothing sectors in the 1990s. By broadening the scope to what are traditionally known as public sectors, this research programme aims to deepen understanding of the parameters that shape the sops and the way in which these affect outcomes, particularly with regard to social equity with implications for social policy. The sop approach entails a considerably broader frame of analysis than most sector-specific research (and, in many ways, the sop approach offers a synthesis of such research, or at least of the factors covered by it) and we anticipate that the case studies that will be produced as a result of this study will present a far more realistic – and therefore useful – investigation of these sectors.

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## **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?

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2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
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