



FESSUD

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE DEVELOPMENT

Working Paper Series

No 173

Finance and economic and social reproduction:
prospects for financialised futures in Portugal

João Rodrigues, Ana C. Santos, Nuno Teles

ISSN 2052-8035



Finance and economic and social reproduction: prospects for financialised futures in Portugal

João Rodrigues (FEUC, CES, University of Coimbra), Ana C. Santos (CES, University of Coimbra), Nuno Teles (CES, University of Coimbra)

Abstract

Portugal is a semi-peripheral country within the EU that has partially followed similar processes as those of most financialised core countries, and that has been particularly hard-hit by the GFC. This paper reflects on the factors that have shaped economic and social reproduction in Portugal, drawing on previous research examining the involvement of households with finance and the systems of provision for housing, pensions and water conducted for WP5 and WP8 of FESSUD. Based on the Portuguese case studies, the paper discusses the constraints on, and pressures for, continued expansion of finance that have become most evident in the aftermath of the GFC.

Key words: Financialisation, semi-periphery, Portugal, housing, pensions, water

Date of publication as FESSUD Working Paper: November 2016

Journal of Economic Literature classification: G28, H55, L95, P16, P50, Q25, R21, R31

Contact details: anacsantos@ces.uc.pt

Acknowledgments:

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800. Grateful thanks are due to Ben Fine and Giuseppe Fontana for comments on an earlier version. All remaining errors or omissions are our own responsibility.

Website: www.fessud.eu



Finance and economic and social reproduction: prospects for financialised futures in Portugal

João Rodrigues, Ana C. Santos, Nuno Teles

1. Introduction

This paper forms part of a collection of submissions for Task 6 of WP11 on finance and economic and social reproduction prepared by SOAS and CES. The main scope of this paper is to reflect on the factors that have shaped economic and social reproduction in Portugal, drawing on previous research examining the involvement of households with finance and the systems of provision for housing, pensions and water conducted for WP5 and WP8 of FESSUD. This is one of two papers prepared by CES on the future of financialisation. The first focused on the financialisation of the water sector in Portugal, and this one is a more general paper which considers wider lessons based on the way in which finance has shaped the provision of basic services in the country, including housing and pensions.

Previous research has shown that financialisation has transformed profoundly the organisation of economic and social reproduction, with finance engaged in ever more areas of economic and social life, and that these transformations are highly variegated in implementation and outcomes across and within countries. Indeed, cross-country comparative research for WP5 and WP8 has shown that the impacts of financialisation and of the financial crisis depend on multiple factors and their interactions. They depend on overall levels of economic and financial development, affecting most the weakest and financially integrated economies exposed to financial turmoil. They depend on the particular ways relevant systems of provision have become increasingly financialised and more prone to reproduce and consolidate social inequalities. And they depend on recent transformations of broader welfare provision, especially those that have pushed the most vulnerable to the margins of evolving welfare models and their corresponding systems of provision. From this it follows that the ways in which the penetration of finance into economic and social reproduction will continue to evolve will vary too across and within



countries; and especially so in the wake of the Global Financial Crisis (GFC) that has had highly differentiated impacts, producing further geographical and institutional variations.

This paper focuses on the future of finance in the provision of basic services in Portugal, based on housing, pensions and water, drawing largely on the empirical material compiled for FESSUD.¹ The Portuguese case studies are brought to bear on the impacts of finance and of financial crisis on a semi-peripheral country within the EU that has partially followed similar processes as those of most financialised core countries, and that have been particularly hard-hit by the GFC. The Portuguese case studies will thus help illuminate the constraints on, and pressures for, continued expansion of finance that have become most evident in the aftermath of the GFC. The paper thus provides a contrast to the UK where financialisation has been most advanced, as examined in the SOAS papers.

Portugal, a semi-peripheral country within the EU, has to a certain extent followed similar unequal financialisation processes as those of core countries, having become more exposed to financial and economic crises, with more detrimental and widespread effects on the economy and society. These effects have been particularly devastating due to the 2011-14 external financial assistance agreement with the 'Troika' that has required severe austerity measures, which have deepened and prolonged economic recession through their direct and indirect effects on income, increasing unemployment and underemployment, and the contraction of public services. Thus, if, on the one hand, there is significant pressure on the state to continue correcting economic and social imbalances created by finance, on the other hand, the state is highly constrained in conducting public policy, having to continue to rely on the market and financialised solutions to fund much needed social services and infrastructure.

Drawing on the Portuguese case studies on the penetration of private finance into housing, pensions and water, the examination of future prospects for finance in the country will be

¹ For financialisation in Portugal the paper draws on Rodrigues et al. (2016a), for housing it draws on Santos et al. (2015), for pensions it draws on Rodrigues et al. (2016b) and for water on Teles (2016), which will not be specifically referred to in the remainder of the paper.



pursued by examining the particular ways in which finance has become a more pervasive component in these three domains of social provision and the ways this penetration of finance has been impacted by the GFC. Acknowledging the limits of foresight endeavours (Bayliss and Fine, 2016), the underlying presuppositions guiding this foresight exercise is that financialisation and the ensuing financial crisis have produced profound transformations in economic and social structures and processes that condition the ways in which the financial expansion may unfold in the future, which will be not mere replications of past processes and outcomes; and that the future of finance is context specific, requiring national and sectoral case studies.

The paper is organised into five parts. The next section briefly presents the main characteristics of semi-peripheral financialisation of the Portuguese economy, setting the background for the Portuguese case studies. The subsequent three sections look into housing, pensions and water, identifying the factors that have shaped financialisation of these systems of provision in recent years, and the prospects for their evolution given present circumstances and constraints. The final section synthesises the main conclusions of the foresight exercise constructing a vision of a future considering the implications of continuing on the current trajectory.

2. The semi-peripheral financialisation of the Portuguese economy

Analysis of the content of financialisation on the Portuguese economy and society has revealed a substantially differentiated experience of the recent rise of finance than that of the Anglo-American world, an experience that has been conceptualised as a semi-peripheral type of financialisation (Rodrigues et al., forthcoming). As will be explained below, this is by and large shaped by structural features of the economy and the relatively late 'modernisation' of the financial system in the 1990s, first, in the context of the European integration process and, subsequently, the construction of the Economic and Monetary Union.



Indeed, the notion of semi-peripheral financialisation was forged having two closely-related aspects in mind. First, it accounts for the intermediate position of the Portuguese economy in the world economy, i.e. as an industrialised country that is increasingly unable to compete with countries with which it is most closely integrated, susceptible to stagnation and crises alongside compensating growth of non-tradable sectors. Second, it refers to the institutional features of its financial system, which shares characteristics of both core and peripheral countries, being mostly shaped by the process of European integration and by the predominance of bank loanable capital within the strict framework of the Euro. The concept of semi-peripheral financialisation in the Portuguese context underlines the more predominant and critical role of bank loanable capital in shaping recent changes in the economy and society, emphasising the role of international finance and its intertwining with domestic agents, including financial institutions, non-financial firms and households.

With its own colonial past, Portugal is, nonetheless, a semi-peripheral country within the world economy, combining characteristics of both developed and developing countries and being marked by late industrialisation and lasting backward economic development relative to the core Northern and Central European countries. With its loss of colonies in the 1970s, the country rapidly geared towards integration in the then European Economic Community (EEC), formalised in 1986. New foreign direct investment, benefiting from structural EU funds and lured by low wages, fuelled economic growth during the early years of integration.

Portugal's laggard position in the European context reinforced the role of the European Union in driving the particular levels and forms taken by the financialisation of the Portuguese economy and society. The participation in the Eurozone, in particular, brought particular unprecedentedly advantageous financial conditions, such as an almost unlimited access to hard currency and bank loanable capital at low interest rates, usually unavailable to countries at similar levels of development.

The financialisation of the Portuguese economy and society was a rapid, but effective, process of socioeconomic transformation. Within the time-span of a decade, between the



mid-1980s and the mid-1990s, the Portuguese financial system evolved from a state-controlled and ‘repressed’ financial regime to become fully integrated and liberalised, supported by a firm insertion in international circuits of finance. Despite the speed of these transformations, the transition was smooth without the financial instability that frequently accompanies such processes.² The Portuguese case is even more remarkable when considering the scope and depth of these transformations. The recent evolution of the (non-financial) private sector testifies to the magnitude of these changes, progressing from a very timid engagement with finance to skyrocketing levels of private indebtedness, the main culprit for turning Portugal proportionately into one of the highest externally indebted countries in the world.

In the early 1980s, major economic groups and banks were publicly owned. Interest rates were set administratively, and credit was mostly directed towards the needs of the state and of the associated public enterprises in strategic sectors; there were also strict controls on capital flows, and the exchange rate was defined using a sliding scale pegged to a basket of foreign currencies. This configuration, locked-in by a socialist leaning Constitution declaring nationalisations as ‘irreversible conquests of the working-class’, was antithetical to the wider neoliberal international trends at the time with which Portugal eventually aligned, albeit, as typical in the semi-periphery, with a time lag.

The combination of two IMF interventions (in 1979 and in 1983-85) and the preparation for accession to the EEC set a favourable context for what has been uncritically labelled as the ‘modernisation’ of the Portuguese financial system from the mid-1980s onwards. The privatisation and liberalisation of the financial sector, which put an end to credit limits and administered interest rates, was the first set of factors contributing to the increase in bank loans in the 1990s. A second set of factors is linked to the release of (poorly remunerated) compulsory reserves deposited in the Bank of Portugal, which were subsequently

² The ordered nature of the transition can be explained by the conjunction of a set of very favourable factors including: the role of the state in planning and implementing these reforms, which were carefully phased out even if within a short time; state support to the bank sector through a highly beneficial fiscal framework; the presence of a strong public bank capable of intervening at convenient and trouble times (Caixa Geral de Depósitos); and very low levels of private indebtedness (of non-financial firms and households), meaning the presence of profitable and unexplored markets.



transformed into public debt negotiable at market prices, and the gradual rise of securitised public debt, traded on secondary markets and open to foreign investors.

Accession to the EEC, and ensuing integration into the European single market for goods and services, implied liberalisation and harmonisation with the different segments and practices in the European banking sector, for example, putting an end to the traditional distinction between investment and commercial banking, abolishing restrictions on the entry of new agents and aligning prudential requirements for the sector with the 1989 Basel Accords.

The removal of all national controls over the international circulation of capital, reflected in the full convertibility of the escudo, was the culmination of the process of transformation of the financial sector. It contributed to attracting foreign capital, helping to peg the exchange rate of the escudo, and generating significant revenue from privatisations. The changes in the exchange rate policy meant the substitution of the goal of competitiveness with a disinflationary target, in line with the strictures of the European Monetary System and the Exchange Rate Mechanism, to which the country joined in the 1990s. With the active participation of the state, this trajectory illustrates an active political commitment to a process of integration increasingly guided by market forces and, in particular, by finance.

The processes of bank privatisation and financial liberalisation, which were basically completed at the beginning of the 1990s, and the nominal convergence trajectory culminating in adherence to the Euro – all contributing to the over-appreciation of the escudo – were decisive factors in transforming the Portuguese economy into a financialised one. Indeed, the official justifications and optimistic evaluations that underpinned the strategy for joining the Euro explicitly underline the aim of expanding the financial sector, perceived as being in the vanguard of ‘modernization’.³ The remarkable decrease of real interest rates was then seen as the most relevant sign of the successful insertion of national finance into international financial markets. The expectation was, on the one hand,

³ Naturally, as the case studies below show, financial modernization was appealing to other agents and sectors as loans were made available to them, reinforcing elites being formed and strengthened within the financial system.

that it would allow firms to accelerate capital accumulation, taken as a pre-condition for future increases in overall productivity; and, on the other hand, that it would favour accumulation of wealth on the part of households, particularly through the purchase of housing stock. From indebtedness levels below the European average in the mid-1990s, Portuguese households and firms were geared to the top in the first decade of the Euro, with levels similar only to the UK and Ireland.

The policy of nominal convergence, as part of the construction of the single European currency, ultimately created conditions for future troubles. Portugal entered the Euro with an over-appreciated exchange rate and with an already unbalanced economy. A huge current account deficit started to mount, since the government could no longer rely on devaluation to boost its exports and solve its balance of trade problems. The strong Euro aggravated this problem further. In a context marked by continuing downward pressure on prices, Portuguese firms, mostly price-takers when operating internationally, saw a decrease in their profit margins. Incentives were thus geared towards the profitable non-tradable sectors of the economy, less exposed to foreign competition – from construction to retail and privatised utilities. The banking sector played a pivotal role in these structural transformations, channelling foreign credit, directly or indirectly (i.e. through households), to these sectors. This has meant that the extraordinary influx of capital, even if at a low cost, did not result in positive structural transformations in the tradable sectors of the economy. On the contrary, a decaying manufacturing tradable sector was progressively substituted by construction and real estate. High external and unsustainable debt is thus not so much related with the cost of capital per se but largely with the insertion of the uncompetitive economy in the international arena and corresponding intertwining with international finance.

To sum up, the context-specific nature of semi-peripheral financialisation of Portugal, stemming by and large from the hybrid nature of the economy, combines elements of relatively backward structures with a rapidly modernised financial sector fully articulated with core financial centres. This has translated into the predominance of bank loanable



capital from external sources, capital accumulation geared towards domestic non-tradable sectors, rising levels of household debt, and a state overly-dependent on foreign funding, resulting in high levels of external debt and prolonged economic stagnation even before the crisis.

3. Prospects for financialised housing: foreign investors and segmented mortgage markets

The expansion of bank loanable capital has had a tremendous impact on the housing sector. It absorbed a great part of loans granted to business and households as real estate lending has gone into the production of dwellings as well as their purchase.⁴

These transformations were also encouraged by EU banking regulations that favoured the financing of homeownership through mortgages (considered the most secure form of credit since they are based on a durable asset as collateral), and thereby the upstream activities of construction and real estate. Continued public investment in infrastructures further favoured these sectors. Even if the Maastricht fiscal criteria and the Stability Pact constrained public investment, various financial engineering arrangements, such as the creation of state-owned enterprises or Public Private Partnerships, allowed for disguising public investment in infrastructure as public expenditure. This financial engineering, primarily engendered by the banking sector, allowed for the rise of aggregate investment in the 1990s, pulled by a housing and construction boom. Lax land regulation, associated with incentives for local municipalities to approve construction, also favoured the construction boom. Bank credit to construction and real estate activities grew from 10% to about 40% of the entire business debt between 1992 and 2008, reflecting the move of domestic capital to sectors relatively insulated from international competition in the new context of a strong currency that penalised the tradable sectors such as manufacturing. The construction of household dwellings rose dramatically, with the number of homes built per annum tripling

⁴ Between 1992 and 2008 bank credit to construction and real estate activities rose from 10% to 40% of entire bank lending to non-financial firms; and between 1992 to 1999 bank loans to households surpassed bank lending to non-financial corporations, growing from 45% to 115% (Rodrigues et al., forthcoming).



from 40.000 in 1995 to 120.000 in 2002. However, this construction boom meant a dysfunctional use of land and an oversupply of dwellings, with an extraordinary proportion of vacant housing units (12.5% in 2011).

Banks not only financed the construction of family dwellings but also home purchases. The traditional weakness of the Portuguese welfare state, conceding only a marginal role to social housing (representing 3% of total housing stock of permanent residences in 2011), together with a housing policy focused on the promotion of private ownership help to explain the extraordinary rise of housing loans. Already prior to membership of the EEC, ownership rates were high in EU terms, as state intervention favoured private forms of provision. But the financialisation of the Portuguese economy ultimately provided the conditions for the success of a policy model based on homeownership through the use of credit, which from the second half of the 1990s onwards became cheap and plentiful. The role of the central government in this process is evident. Between 1987 and 2011, 73% of the government budget devoted to housing was spent on subsidies associated with loans for permanent homeownership, 14% was used on rehousing programmes, 8% was used on rent subsidies, and only 2% was spent on direct promotion of housing (IHRU, 2015a). State support was thus relevant to ensure mortgage-led demand for new homes grew in tandem with the rise of housing supply. The housing system of provision has thus accounted for a large portion of households' financial activities through mortgage markets, as a result of unprecedented access by the Portuguese banking sector to European credit markets, as noted above, making credit available to households at low interest rates, and the specificities of the Portuguese housing system of provision that was by and large dominated by private and commodified forms of provision.

Household debt grew from 35% of disposable household income in 1995 to reach its highest value of 131% in 2009,⁵ declining since then and representing 118% of disposable household income in 2013. This rise in household debt is easily identified with housing loans, constituting the main portion of household bank debt that has risen from 70% in 1995

⁵ In this year, the average level of household debt for the 18 Euro countries was 98%.

to 80% in 2009, which helps explain the rise in the proportion of property owners relative to tenants, with homeownership representing 73% of accommodation in 2011, growing from 65% in 1991.

At the turn of the millennium, housing oversupply and the end of state support to mortgage credit resulted in a slow burn crisis in the domestic construction sector, with very asymmetric social and regional impacts. The 2008-09 crisis accentuated the sector imbalances, with the decline of household disposable income and the rise of unemployment rates leading to the rise of credit arrears, even if default rates of mortgage loans remained at relatively low levels (3% in 2013); as well as the recent exodus from the country of young unemployed individuals and couples. All this represented an important constraint on continued expansion of finance in the housing sector from a demand side viewpoint.

Another type of constraint emerged from the concentration of mortgage debt on higher-income households. In Portugal, mortgage markets have been a privilege of the middle to upper classes, who have had eased access to this type of loans because they have enough wealth for a deposit and collateral, having almost exclusively benefited from cheap subsidised credit.⁶ The extraordinary expansion of household debt should thus be understood as the easiest and cheapest way for the wealthier households to gain access to housing. Departing from very low debt levels, the rise of indebtedness was not only generally sustainable in respect of a household's ability to pay, but was also a relatively safe way to accumulate wealth, despite the drop in housing prices in recent years. With most of these mortgages contracted at variable rates indexed to the interbank rate Euribor, monthly repayment amounts have followed the decline of ECB interest rates since 2009, allowing for a significant reduction in levels of mortgage loan repayments, in contrast to the general rise of rents due to the liberalisation of the rental market.⁷ Low income

⁶ This has also contributed to the relatively smooth and undisturbed financial expansion, as mentioned above, as well as to the more moderate impact of the crisis on the Portuguese housing sector, which did not experience the dramatic consequences of the housing bubbles of the USA or Spain.

⁷ For example, between 2001 and 2011 the monthly value of acquired homes rose 36% while the monthly cost of rented accommodation rose 91%.

households, excluded from homeownership and social housing, have faced increasingly higher housing costs, resulting in the escalation of inequalities in access to housing.

In the aftermath of the GFC, the expansion of mortgage markets slowed down and access has become more exclusive, with borrowers expected to put down larger deposits, and lenders seeking more stringent evidence of ability to make repayments, including close scrutiny of the income, and even the spending habits, of prospective borrowers. All this has served to increase mortgage market segmentation. The current economic situation, marked by stagnation, high levels of unemployment among the youth, precarious labour relations and low wage income, further contributed to skewing mortgage markets towards the well-off accentuating its inequality-inducing effects, providing further evidence for the exhaustion of a model based on financialised private provision of housing.

The dysfunctions of the Portuguese housing system are acknowledged by public authorities. The public institute responsible for implementing housing policy in Portugal, the Instituto da Habitação e da Reabilitação Urbana (Institute for Housing and Urban Rehabilitation), has noted the paradoxical situation of the Portuguese housing sector, with the co-existence “[o]n the one hand [a] high number of empty homes, [and] on the other difficulties experienced by families in finding housing that is adequate to their means and needs” (IHRU, 2015b: 6). It also acknowledges that the housing problem in Portugal results from the “[t]he politics of promoting and financing the acquisition of private housing”, which “ended up having a perverse effect in price increases and contributed to the accumulation of very high levels of debt by the state, the banking sector, companies and households”. The overall assessment of a public policy devoted to the promotion of homeownerships is that “[r]elated public and private investment … neither contributed nor enabled familial access to housing” (p. 11). These politics promoted instead “the expansion of urban peripheries, in many cases segregated and in poor conditions, they generated vast surfaces of ‘artificial land’, added home-to-work commutes and exponentially increased energy consumption for transportation. In the case of historic centres, these policies increased local costs, promoting only very costly building rehabilitation projects” (p. 11).



This has meant that in Portugal, one of the most severely hit EU countries by the financial crisis, the rental market has become the only viable alternative for those unable to own a home. Fiscal incentives to promote private homeownership through mortgages are no longer a possibility for the highly-indebted Portuguese state. Public debt reaching record highs, a shaky banking sector requiring constant assistance from public authorities, and an impoverished middle-class, together dictate the end of a housing policy based on loans for homeownership. Under the new circumstances, house rental has become the main alternative for both families looking for a home and for promoters who need to sell their properties. Again, this is bluntly recognised by public entities with responsibility for housing policy such as IHRU (2015b: 20).

Regional imbalances have been another consequence of financialised housing that creates its own constraints for finance's expansion. In Portugal, this has been manifested in the growing divergence of urban coastal areas vis-à-vis the rural mainland parts of the country; with the former more vulnerable to global and systemic pressures, and the latter enduring economic decay, population decline, accentuating problems of economic, social and territorial cohesion.

In the context of savings glut searching for yield, real estate has also become a more attractive destination for foreign capital. That is, the GFC has rendered urban space and touristic areas an ever more attractive destination for investment, contributing to the escalation of house prices in those regions, further pushing the transmutation of housing into a financial asset, creating new forms of economic, social and territorial disruption.

And this is by and large externally driven. Policies conducted to deal with the financial crisis, namely the large scale programme of quantitative easing carried out by the ECB to ensure that interest rates remained at very low levels, has had the effect of reducing yields on government bonds, bank deposits and pension annuities, raising the relative attractiveness of investment in housing, and in residential lettings in particular. Many capital cities have since received a substantial amount of foreign investment, from wealthy individuals and institutional investors, such as pension funds and insurance companies,



reflecting the role of housing as a 'safe haven' from continuing financial turbulence and political uncertainties and turmoil elsewhere in the world.

This is visible in the two major urban centres of the country, Lisbon and Oporto, and also in the country's tourist region of the Algarve. For example, in Lisbon, in the first trimester of 2016, foreign investment represented 20% of residential transactions, with a predominance of French (26%), British (18%) and Chinese (13%) buyers.⁸

This provides yet one more illustration of how external factors are combined with particular national and local interests, where central and local governments are not merely passive agents. Quite the contrary, under a stagnated domestic market, both central and local governments have actively promoted foreign investment in real estate, for example facilitating residency permits in exchange for the purchase of expensive properties (i.e. Gold Visas), by participating in international tourism and real estate fairs (e.g. Portuguese Real Estate and Tourism Exhibition in Paris in 2016), or by conceding important fiscal incentives to foreign investment, namely reductions or temporary exemptions from municipal tax. As suggested above, these incentives have been effective. Carlos Vinhas Pereira, President of the Franco-Portuguese Chamber of Trade and Manufacturing, and focusing on the French interest in the Portuguese real estate, underlines the following points of attraction: "security, purchasing power 20 to 25 per cent higher in Portugal, climate, quality of life, easy transportation with 330 weekly flights from 23 French cities, culture and gastronomy, and, in the end, the fiscal component".⁹

This is a trend likely to continue in the present low interest rate environment and the financial and political turbulence in many parts of the world. It is also likely that it will attract small domestic investors due to a more acute aversion to risky investments in the aftermath of the crisis and exposure of bankruptcies and scandals across the economy, as well as the generally low rates of the relatively safer bank deposits and pension annuities,

⁸ <https://www.publico.pt/economia/noticia/fanceses-lideram-compras-de-imobiliario-portugues-superando-ingleses-e-chineses-1732517>

⁹ <https://www.publico.pt/economia/noticia/governo-acena-com-vantagens-fiscais-a-investidores-franceses-1732591>

in addition to reforms to the state pension system that have served to highlight the potential attractions of rental housing as a form of building savings for retirement (cf. pensions section below).

That real estate has also become an attractive investment for foreign idle capital looking for both safety and yield is a somewhat novel development. However, the transformation of the real estate into a financial asset has the opposite effect of making housing more vulnerable to speculative pressures, jeopardizing the goal of safety that motivated investment in the real estate in the first place. The qualitative transformation entailed by the gradual substitution of domestic ownership by foreign investment on the real estate of capital cities is thus another consequence of financialised housing with potential dramatic economic, social and territorial impacts. Some of these are already visible in Lisbon, with landlords increasingly substituting long-term tenancies for locals with short-term rentals for tourists, gradually expelling the former from the city centres as they can no longer find affordable rents. Between 2012 and 2015 the price of houses in Lisbon rose 22%, much higher than the national average of 5%, which is explained precisely by the purchase of houses for tourism, namely for short-term rental.¹⁰ This is bringing radical transformations in the city, replacing an already highly pressured residential area by hotels, hostels, restaurants, bars, shops and other tourist-related services.

To summarize, the financialisation of housing has accentuated severe dysfunctions in the Portuguese housing system of provision, including the coexistence of oversupply and shortage of homes in the city centres of major urban areas, a highly segmented mortgage market, an insufficient rental market, marginal non-commodified forms of housing provision, economic decay in rural areas, and intense pressure on big urban centres. These dysfunctions constitute obstacles to the continued expansion of finance based on bank loans in the semi-peripheral Portugal, signalling the emergence of a more limited form of financial expansion, based on foreign capital and targeting particularly safe and profitable markets as opposed to productive investment.

¹⁰ <https://www.publico.pt/economia/noticia/preco-das-casas-em-lisboa-subiu-22-em-tres-anos-1732773>



4. Prospects for financialised pensions: foreign financial institutions and limited private pension markets

While housing has been the preferred conduit through which (a segmented part of) households have increasingly participated in debt markets, pensions have been increasingly responsible for household participation in financial asset markets in EU countries (Santos and Teles, 2014). Portugal is no exception. However, household involvement with finance has been mainly dominated by the acquisition of financial liabilities rather than financial assets, a difference that is partly explained by the specificities of the housing and pensions systems of provision. While housing provision has been almost the exclusive domain of the private sector, and at times substantially supported by the state, the pensions system of provision is mainly public and based on the pay-as-you-go principle, with a still limited presence of private-funded pension schemes, which are the archetype of financialisation within this realm of social provision.

The Portuguese social security system was formally established in 1984, under the Framework Law on Social Security, betraying the late institutionalisation of a social protection system in the country and going against the neoliberal trends emerging at the time at the international level, and also in other very relevant domestic areas. The public old-age pensions system, in particular, is an obligatory protection system based on a pay-as-you-go rationale with defined benefits, which comprises a general scheme for workers in the private sector and a specific scheme that is a little more generous for public sector workers known as the Caixa Geral de Aposentações (Civil Service Pension Fund). Overall, this means that current pension payments are financed by contributions from workers and employers in the contributory scheme, and by transfers from the state budget in the non-contributory scheme for those who had not had the opportunity to make contributions. The system thus functions on the basis of intra- and inter-generational social solidarity.

This belated construction of the Portuguese social protection system has represented a slow maturation and convergence with the EU, in line with other countries in Southern Europe, with spending on social protection rising from 8.5% of the GDP in 1986, when

Portugal joined the EEC, to 17% on the eve of the financial crisis in 2007. However, a gap still separates the country from the Eurozone average with regard to per capita spending on benefits, which amounts to approximately 64% of that average. Specifically with regard to pensions as a whole, the number of pensioners in Portugal, standing at slightly over 600.000 on the eve of 25 April 1974, had quadrupled by the beginning of the new millennium. This was in part due to the inclusion of a growing number of beneficiaries within the universal public system, but above all because of demographic trends associated with an ageing population, given that old-age pensions are by far the most significant component. It is therefore not surprising that spending on pensions, which in 1973 amounted to no more than 1% of the GDP (comprising approximately 25% of the expenditure on the social security system), rose to 4% of the GDP in 1980 (representing 60% of total spending on social security), 5% of the GDP in 1990, and over 6% in the new millennium (exceeding 60% of total spending on social security).

Despite the growth dynamic associated with spending on pensions, the average value of pensions has remained low, reflecting the dominant economic model of low wages. At the beginning of the 1990s over 90% of elderly people were receiving pensions that were lower than the national minimum wage (which was and still is very low, e.g. 200 euro per month in 1991, 334 euro in 2001, and 530 euro in 2016). Due to economic growth and development in the 1990s and longer working lives associated with higher wages and contributions, new pensioners began to retire with increasingly higher pensions, which translated into a reduction in the number of those whose pensions fell below the national minimum wage. Even so, in the new millennium almost 80% of pensioners were receiving pensions that were lower than this, indicating persistently low pensions despite these positive, but limited, developments.

Notwithstanding the low level of pensions and the existence, until very recently, of a surplus of contributions in relation to spending on contributory schemes,¹¹ the system is seen as being threatened by demographic trends that need to be addressed. European

¹¹ In fact, this situation only changed as a result of falling employment rates in recent years.



integration has contributed to this perception with European institutions increasingly stressing the imperative of balanced public finances.

Indeed, the public pension system has been subject to ongoing revisions over time. In 1993, the value of old-age pensions actually improved when the pension formulae took inflation into account with the introduction of a consumer price index. However, in a system that was progressing towards maturity, certain rationalisation measures were also introduced. These included the gradual equalisation of the retirement age for women and men by raising the former, the extension of the eligibility period (i.e. the number of contribution years) for accessing to old age pensions from 10 to 15 years, and the extension of the contribution period used to calculate pensions, from the best ten years to the final fifteen years.

In 2000 a new Framework Law on Social Security enshrined the principle that the calculation of pensions should consider contributions as a whole rather than the last fifteen years, which was later established by a Decree-Law in 2002 that included a transition period from 2002 to 2016. This was a highly important parametric change designed to reduce the value of pensions and marked the beginning of the new millennium as a moment of change in the rationale of the system, one that aimed at tying pensions more closely to earnings from working life, implying further removing them from current incomes in society at the point of retirement.

Based on strictly financial criteria aligned with European priorities for public finance, and European institutions' diagnoses and recommendations for pension provision, within the so-called open method of coordination, a form of European soft power, the 2007 Framework Law, introduced major changes into the formula for calculating pensions, which imply substantial reductions in benefits. These included: (1) the introduction of a "sustainability factor" that reduced pensions in line with increased life expectancy; (2) accelerating the transition period to the full adoption of the whole contribution period; and (3) de-indexation of pensions to the minimum salary by creating a "Social Support Index"

which only guaranteed the purchasing power of the lowest pensions, whereas preserving the real value of the remainder now depends on specific levels of economic growth.

Based on the 2007 reform, the European Commission (2012) predicts that Portugal is one of the EU countries in which spending on pensions will increase least between 2010 and 2060 (0.2%), allowing placing pensions, as a percentage of GDP, in line with the average by 2060. Naturally, this implies a clear sacrifice in the standard of living of pensioners since it is associated with a sharp decline in the replacement rate of pensions from almost 90% to 53%, becoming one of the lowest in the EU, producing a growing inequality between the incomes of pensioners dependent on public provision and the incomes of the rest of society. This signals the transformation of pensions into one of the adjustment variables in the economy, which has accentuated with the economic crisis from 2008 onwards and the harsh austerity measures included in the framework of the Memorandum signed with the Troika in 2011 that have specifically targeted pensioners' income.

These changes, together with a permanent legitimising discourse focussing on the impending structural threat to pensions, are fuelling a growing mistrust of the state system. An opportunity has therefore been created for the private schemes to prosper amongst the wealthier and more politically influential sectors of Portuguese society.

Given the tardy set up and the time taken to consolidate the social security system, after the 1984 Framework Law on Social Security, the emergence of private forms of provisioning retirement income, through pension funds and life insurance, is first and foremost an outcome of developments within the financial sector itself, as discussed above. They were first created in 1985, through Decree-Law No. 325/85, being at the time restricted to funds managed by insurance companies ("life insurance" branches). Its scope was soon extended in 1986, when pension fund management companies emerged. In 1989 pension savings plans (PPRs, Planos de Poupança Reforma) and the associated retirement savings funds appeared, promoted by the state via fiscal incentives which took the form of deductions from personal income tax (IRS) in the case of the former, and exemption from corporation tax (IRC) for the latter. Although the initial growth was spectacular – 149

pension fund management companies were created between 1987 and 1988 – the regulatory limits placed on their management were very restrictive at the time, for example requiring funds to hold at least 50% of their assets in public sector debt securities.

The growth in the pension funds sector in Portugal occurred in the 1990s, and this growth was by and large driven by the privatisation of large companies and, above all, of banks that created their own pension funds, the latter holding 57% of all pension fund assets in 1998. The overwhelming majority of these private pension schemes consisted of defined benefit funds resulting from collective agreements with workers which aimed to replicate the rationale of the pay-as-you-go social security system, although they were different in nature since they involved funded schemes and hence were dependent on the financial markets. Pension funds grew exponentially in the decade reaching a total of around 10.000 million euros in 1998 (12% of GDP). Benefiting from growth in specific economic sectors, in particular banking, these funds were also favoured by the climate of financial euphoria in the second half of the 1990s, which boosted capitalisation – the effective average annual rate of return in this period was 8.5%. Although they benefited from tax concessions, the voluntary PPR schemes in the legal form of pensions funds, made a much more modest contribution in this context, comprising only 5% of funds in 1998.

In the new millennium the growth rate of these funds declined, with a sharp fall after 2010. Nowadays the funds do not even amount to 10% of GDP. This fall is primarily explained by the transfer of funds from the banking sector to social security. In a context of stagnation, the crisis in the capital markets and the reduction in the number of workers in the sector, the banks transferred their future (defined benefits) employee responsibilities to the state, providing the latter with a short-term financial reinforcement that enabled reducing the budget deficit. This very tellingly revealed the failure of a private, defined benefits capitalisation model whose associated future costs rendered it unattractive to the Portuguese banking sector. Nevertheless, a few banks still remain the main holders of pensions funds, in particular the BCP (through the Pensõesgere fund), the Caixa Geral de Depósitos (CGD pensions) and BPI (life insurance and pensions), where almost two-thirds



of the market is concentrated, largely replicating the current oligopoly in the Portuguese banking market.

Although pension funds in Portugal do not appear to have been able to withstand a decade of economic stagnation followed by crisis, this does not imply any decline in the importance of savings products destined for retirement. In fact, in addition to pension funds (and PPRs in the legal form of pensions funds which are of marginal significance), there has been a marked growth in PPRs offered by insurance companies, which nowadays have considerable weight in the national economy. These products, usually benefiting from guaranteed capital and a minimum rate of return, are actually investment funds, albeit with a low-risk profile. Unlike the aforementioned pension funds, the PPRs offered by insurance companies do not provide defined benefits; they offer instead the capitalised value of the financial application at retirement. The value of the PPRs has increased exponentially from 2.000 million euros to 12.111 million euros between 1998 and 2013, an evolution that was again actively promoted by the state through significant concessions in the form of tax exemption for individual investors, contributing as well to their implicit returns.

Despite claims that they are an efficient mechanism for mobilising and allocating capital, the growth of PPRs has resulted in a remarkable channelling of capital outside the country, particularly to other EU countries. Indeed, in 2007, prior to the international financial crisis, 64.5% of the insurance companies' investments in PPRs were applied in the EU, with only 14% in Portugal. Although this may be explained by the narrowness of the financial markets in a semi-peripheral economy such as Portugal, the negative effect on the Portuguese economy is undeniable, since these investments represent a transfer of financial resources outside the country. Moreover, in contributing towards lower economic growth, lower employment and fewer contributions to the social security system, they ultimately have a detrimental impact on the sustainability of this system.

Although the PPR market is concentrated within insurance companies, this should not mask the influence of banking on this market, given that the main insurance companies belong to banking institutions. Fidelidade, the biggest insurance company with a 31% share

of the market, belonged to the Caixa Geral de Depósitos bank until it was privatised in 2014, and has since been controlled by Chinese capital (via Fosun). The second largest, Ocidental Seguros, with 20% of the market, belongs to BCP and the international insurance company, Ageas. The companies ranked third and fourth belong to the former BES bank (Tranquilidade, nowadays controlled by the US private equity fund Apollo), and the BPI bank, with Allianz.

Finally, it should be noted that the state social security system has also not been immune to the idea of capitalisation. The Social Security Financial Stabilisation Fund (Fundo de Estabilização Financeira da Segurança Social, FEFSS), created in 1989 with an initial allocation of 216 million Euros, illustrates this well. Like the state pension funds, the FEFSS has also sought to copy the investment strategy of the private funds, whose finances are the result of transferring two to four percentage points of contributions from salaried workers. The portfolio of this fund has expanded steadily over the past twenty years, totalling 11.700 million Euros in 2013, equivalent to 7.1% of the GDP and approximately 13 months of the Portuguese state's current expenditure on pensions. However, the investment rules for this fund are considerably more restrictive than those applied to private funds, requiring a minimum investment in the Portuguese state debt.

At present, a stagnant economy marked by high levels of inequality hinders the possibilities of expanding the financialisation of pensions. Similar to the prospects for financialised housing, in the aftermath of the GFC, the current economic situation, marked by stagnation and gloomy perspectives resulting from a high level of state debt to be paid off over the next two decades, the high levels of unemployment among the youth, precarious labour relations and low wage income, hinder the expansion of finance in this realm of social provision.

From this it follows that the continuing erosion of the value of pensions within the state system will hardly be compensated by private provision. Only the wealthier will be able to partly complement retirement income through private means. Increasing segments of the retired population will face a substantial reduction in their living standards with the



reinforcement of the link between contributions made during working life and future pensions, within a context of high unemployment rates and an increasingly precarious labour market. Even those who will be able to subscribe to voluntary private schemes will find it difficult to secure living standards equivalent to those previously offered by the public system. The pensions provided by private-funded pension schemes depend on the return from the capital invested which, given the continuing instability, will be dubious, both from an individual and a collective point of view.

To summarise, in Portugal, the construction and subsequent erosion of the state pension system has been accompanied by the slow growth of private pension schemes. Portugal thus occupies a modest position in terms of the importance of pension funds in relation to wealth generated, with assets controlled by these funds representing 8.8% of GDP in 2012, in comparison with an OECD average of 35.5%. Private-funded schemes play only a minor role in the Portuguese pensions system, with low levels of take-up and relatively mediocre returns. This is partly explained by the late development of the state pension system and against the neoliberal influence at the time, and the semi-peripheral nature of the country with a relatively immature capital market and low levels of household disposable income. The gradual privatisation of the system has been relevant only for a small, wealthy segment of the household sector. In the aftermath of the GFC there is little room for channelling almost non-existent savings to capital markets while the state is financially drained and unable to sponsor such schemes on a large scale. Financial institutions, particularly insurance companies, nowadays belonging to foreign capital, but capture a small and lucrative market, which has become yet another mechanism for exporting capital to the European core. Similar to housing, and exposing the semi-peripheral condition of the country, the expansion of finance in the Portuguese pension system of provision faces severe obstacles pointing towards a different and more limited form of financial expansion, increasingly involving foreign financial institutions and targeting an ever more segmented market. At the same time, particular socioeconomic groups, such as women that generally have shorter and lower paid working careers, will receive diminished and insufficient



pensions resulting from the tightening of the link between contributions paid into the public system and benefits paid out.

5. Prospects for financialised water provision: foreign capital and cherry-picking

The recent evolution of water provision is also shaped by the semi-peripheral nature of the financialisation of the Portuguese economy and society in the context of the process of European integration, which was largely marked by the easy access to foreign capital loans. In the 1980s, the sector was marked by considerable investment by public entities in the improvement of what were then taken as highly deficient water and waste systems, for which local councils were mainly responsible. The more significant transformations in the sector occurred in the 1990s when it was reorganised. Following EU guidelines, three major institutional transformations were introduced: the corporatisation of the public sector; the introduction of private enterprise practices in water management, which aimed to bring in cost recovery in water bills; and private capital investment. These changes were justified by the need to enhance investment to upgrade the different water provision systems across the country, which still had important deficiencies in the early 1990s, requiring large capital loans from external sources.

Corporatisation involved the devverticalisation of water provision systems, separating the (capital-intensive) bulk sector (caption, treatment and storage of water) and the retail sector (storage and final distribution). The retail sector remained in the hands of local municipalities, which held the power to fix and charge tariffs to domestic users.

The bulk sector was regionally integrated into 19 multi-municipal companies with municipalities keeping a 49% share. The control of the sector was transferred to the newly-created public holding "Águas de Portugal (AdP)" that retained a 51% share in each of these new companies. Corporatisation of the sector, through the creation of these new public companies, was understood as a way to enhance efficiency, since professional management was considered to be less permeable to political pressures than public management directly subjected to political power. Moreover, the introduction of the



corporate management model was also motivated by the need for convergence with European rules to meet the conditions for accessing investment subsidies from the then European Economic Community (EEC), and loans from the European Investment Bank.

Given the municipal control of water provision, the transfer of power to AdP had to be agreed voluntarily by municipalities. Allured by the promise of new investment in the capital-intensive bulk sector, without incurring further costs, most municipalities accepted this new architecture. Today, these companies cover around 71% and 67% of the population in bulk water supply and in bulk wastewater management, respectively. Municipalities that refused at the time to participate in this process cover the rest of the population.

The retail sector did not escape the move to corporatisation. Various municipal companies were created then with the single purpose of managing retail provision of water and wastewater treatment. While most of these companies retained public ownership being owned by the local municipality, several municipal companies were created in partnership with private capital holding a minority share. These led to the gradual involvement of national construction companies as private partners which, in many cases, benefitted directly and indirectly from contracts with these municipal companies. But the most significant change at the retail level, introduced from 1993 onwards, was the entry of private capital through Public-Private Partnerships (PPPs) in municipal concessions. Coinciding with the expansion of water multinationals across the world, a small number of municipalities covering large populations conceded their retail systems to multinational companies, such as Veolia, for extended periods. Again, the expectation was that this would allow new investment financed from sources other than municipal budgets.

The introduction of private enterprise management practices in the provision of water was enforced through the creation of a regulatory agency for the sector (also encompassing solid waste management). First established, in 1995, as Supervisory Commission for Concessions, the scope of the regulatory agency has expanded with its institutional evolution, becoming, in 2009, as The Water and Waste Services Regulation Authority (ERSAR), the regulation authority for the entire water and waste sector. As a regulatory

body, the ERSAR mandate presently rests on the principle that a natural monopoly ought to be regulated to ensure the adequate protection of consumers. But it is also deeply concerned with the elusive goal of market efficiency. While ERSAR clearly endorse as its mission "to ensure adequate protection of consumers (...) by promoting the quality of the service provided by the operators and guaranteeing socially acceptable pricing", at the same time it emphatically stresses the need of safeguarding "the financial viability and best interests of the operators, irrespective of their status" (ERSAR, 2012: 17). This concern is explicitly conveyed in its endorsement of the total cost recovery principle in the calculation of the prices of water and wastewater services, and the recommended targets for the return on capital on these investments of about 5-10%, which were legally established from the mid-1990s and based on the 10-year government bond market rate to which is added a "risk premium" of 3%.

The massive entry of private capital was another hallmark of the evolution of the sector in the 1990s. European grants and abundant foreign credit available (from the European Investment Bank, domestic banks and foreign bonds) funded an impressive evolution of investment in the water and wastewater systems. Coverage of water supply and wastewater improved, particularly in treated wastewater, with coverage rising from 25% in the mid-1990s to 75% at the end of the 2000s. The expansion of coverage was followed by an impressive improvement in the quality of water supply, and also significant progress in the treatment of river basins and coastal waters.

Annual investment in the sector continued to grow extensively in the 2000s, from 364.5 million euros in 1999 to almost 1400 million euros in 2010 (nominal terms). In the bulk sector, debt increased from 438 million euros in 2003 to 2.470 million in 2012 (representing about 39% of the sector assets). In the retail sector, including also retail waste treatment, debt rose from 119 million euros in 2003 to 552 million euros in 2012 (representing about 55% of the sector assets).

With the state being constrained by EU Stability Pact's deficit limits, the scale of the investments was only achieved with both EU transfers and the resort to (mainly foreign)



debt, to which Portuguese agents had privileged access from the beginning of the 1990s until the 2011 Eurozone crisis, as mentioned above. Thus, the recent evolution of the water sector was also by and large determined by the participation in the EMU that allowed the Portuguese economy to benefit from new and unconstrained access to capital at historically low interest rates in international (European) markets. The country's semi-peripheral position, with over-appreciated real exchange rate within the Euro Zone, was beneficial to the agents operating in the water and connected sectors, such as construction companies, that were relatively more protected than the rest of the economy from external competitiveness.

AdP, with its corporate structure, was of pivotal importance, channelling most of its external funding to the regional bulk companies that it controls and that operate in bulk water supply and wastewater sectors. The scale of AdP enabled it to acquire financial know-how in domestic and foreign financial markets, having had access to three different funding sources: European subsidies, long-term debt (mainly coming from the European Investment Bank (EIB) and bond issuance); and short-term loans from the banking sector. Debt grew from 744 million euros in 2003 to 3.000 million euros in 2013 in nominal terms. About 60% of this debt consisted of EIB loans with long maturities and low interest rates, whose relative importance as a funding source rose from the beginning of the 2000s. Private banking debt, accounting for about 20% of total debt in 2013, refers to loans both from major foreign banks, such as Deutsche Bank and DEXIA, and domestic ones, such as BPI. AdP also resorted to bond markets, issuing bonds of around 600 million euros to a very small number of foreign investors during the 2000s in order to match their long-term investment with long-term debt. The success of these bond market operations was attested by the low interest rates charged (amounting to 1.8% in 2013), showing both the scale achieved by AdP as a company and its deep involvement with international finance. Finally, the financial sophistication of AdP and its financialised profile is also clearly attested by the volume of interest rate and exchange rate SWAP derivatives, most of which aimed to protect against interest rate volatility.

The scale of much need investment helps understand why such far-reaching institutional transformations (corporatisation and transfer of responsibilities from local municipalities, private capital involvement, and new regulatory framework) did not face much popular resistance during the 1990s and early 2000s. These transformations coincided with extraordinary progress in the provision of water and wastewater and the relatively contained growth of the tariffs set by municipalities. Nonetheless, the increasing role of finance in water provision – through debt that funded most of the new investment – set the scene for a new stage where the relation between finance and domestic consumers became increasingly tightened. Rising financial costs associated with rising debt ultimately legitimised enhanced regulatory powers to enforce the cost recovery principle, which has meant the streaming of income from households to finance through tariffs have risen considerably and above inflation in the past decade. The financialised character of water provision in Portugal thus became apparent since water bills increasingly came to reflect financial costs and the rising influence of the financial sector in water provision. In line with increased investment and output, overall annual costs have significantly increased in bulk sector concessionaires, from 258 million euro in 2002 to 572 million euro in 2012, with financial costs played a significant part in this evolution, having gone from 15 million euro in 2002 to 106 million euro in 2012, resulting from the combined effect of rising debt levels and the rise in interest rates (from 3.3% in 2002 to 4.2% in 2012).

Overall annual costs have also risen in the retail sector (including the water waste system). Again, this evolution is due to rising levels of debt in corporate management companies (public and private), which is contracted with significantly higher interest rates than the bulk sector. Tariffs have consistently grown, from 1.24 €/m³ in 2005 to 1.59 €/m³ in 2012 in water provision, and from 0.57 €/m³ in 2005 to 1.02 €/m³ in 2012 in wastewater tariffs. Reflecting both higher bulk tariffs and the costs of investment in retail, retail tariffs have been increasing at a consistently higher rate than inflation and despite the negative evolution of disposable income in the past few years. However, retail tariffs have grown at a slower pace than bulk tariffs, reflecting the control over the setting of water tariffs on the part of municipalities and their resistance to adopting cost-recovery prices.

The financial conditionality imposed by official foreign lenders (IMF and EU) is pivotal in these developments, having actively pushed for the adoption of the full cost-recovery principle. This favoured the recent endowment of the regulator ERSAR with legal powers to impose the principle on municipalities. The recent restructuring of AdP's multi-municipal companies will be also instrumental in this regard. The new reorganisation of the 19 corporate bulk entities in four regional companies, North, Centre, Lisbon and South, will facilitate implementing the full cost-recovery pricing by allowing a more gradual rise of tariffs since the coastal (urban) regions, where current costs are lower given their high population density, will be able to subsidise the interior, sparsely populated areas of the country with higher costs.

This "horizontal" restructuring at the regional level is expected to be complemented by a "reverticalisation" of the retail and bulk segments, implying the gradual withdrawal of municipalities from water provision. This is a likely scenario given the financial stress on these municipalities. In the new context, in which the regulator ERSAR has acquired new powers, the proposed reorganisation of the sector indicates a growing role of AdP in retail water provision. Although this constitutes a reorganisation within the public sector, it entails the removal of democratic deliberation traditionally guaranteed by municipalities, directly accountable to voters, favouring instead the centralised setting of tariffs.

The public holding company AdP, even if still formally publicly owned, by gradually integrating corporate interests and financial criteria in its management practices, has become increasingly more suitable to privatisation. The privatisation of AdP thus seems to be just a matter of timing, depending on the success of the "horizontal" restructuring, and the more so as no need to target the whole company, which is not found attractive given the need of large investment in water infrastructures and past disappointing privatisation experiences. The reverticalisation of provision and reinforced control over the whole water delivery process, from source to waste management, allows for other privatisation forms. AdP may be partially privatised – with private capital buying a part of the company – or, more probably, remain in public hands while expanding private retail concessions. That is,

private capital can target particular parts of more mature systems where the need for new investment is smaller and tariffs predictability higher, conforming to what the literature has termed "cherry-picking" (Bakker, 2013).

The growing influence of private interests in water utilities is, therefore, likely to continue, contingent on the ability of ensuring predictably stable streams of income to attract private investors. With Portuguese firms among the most indebted of the world and with reduced access to international debt markets, new privatisation waves will most likely involve foreign players. And the Portuguese water sector is attractive to them as well, offering the guarantee of stable streams of future cash flows stemming from the provision of an essential but ever more expensive good.

At the moment, the private companies in the sector consist of those that hold municipal retail concessions, covering around 13% of the population. The biggest private player, Aquapor, initially part of the AdP group, was privatised in 2008 and is now owned by one major Portuguese construction company DST. Indaqua, which was controlled by three different construction companies, has now two major shareholders, the Portuguese construction company Mota-Engil (45%) and the German financial group Talanx (50%). AGS, formerly controlled by a consortium of Spanish and Portuguese construction companies was sold in 2014 to Japanese conglomerates, Marubeni and INJC. The entry of private capital in retail concessions has also seen the entry of major multinationals, but this was short-lived, with Suez and Aguas de Barcelona selling Lusagua to Aquapor in 2001, and Veolia Portugal being sold in 2014 to the Chinese group Beijing Water Systems. The latter case is already suggestive of a new form of financialised water provision. The selling of Veolia to Beijing Water Systems involved a sophisticated financial scheme through an offshore company based in Bermuda that bought the retail concessions with a shareholder loan, which will be paid back out of the cash flows the Portuguese utility will provide.

To conclude, similar to the housing and pensions case studies, the recent evolution of the water sector exposes the semi-peripheral position of the country. The growing weight of finance in water provision was by and large favoured by the insertion of the country in the

European Union, which facilitated access to EU structural funding, EIB loans, and loans from other EU banks. The high indebtedness of the country and of the water sector made them both more vulnerable to the international economic and financial crisis. As a result, new opportunities have arisen for a new wave of private foreign capital entry, where financial agents started to participate as stakeholders, further promoting the concentration and fluidity of capital in a sector traditionally rooted in specific territories and political communities. Increasing indebtedness, financial volatility and crisis will very likely continue to enhance the power of international financial actors over local water utilities. Thus, in contrast to housing and pensions, and building on the transformations of the previous two decades, the financial and economic constraints resulting from the GFC have created favourable conditions to deepen the financialised character of the Portuguese water sector.

In tandem with what is being observed elsewhere, this may include new emerging institutional financial investors and, with it, the growing influence of major financial centres – London, New York, Tokyo and Frankfurt – in water provision, since they are the privileged marketplace of the liquid and sophisticated securities markets, assisted by countless “off-shores”. The centralisation of financial flows, on which water provision will be increasingly dependent, will then further expose an international hierarchical structure of finance that puts the provision of basic goods in the hands of agents hardly accountable for either consumers or sovereign countries, thus limiting the possibility of democratic participation in the decisions affecting how water provision is organized in the future. The financialisation of water means deepening the connection of households with the world’s financial centres, a connection that will be made through the payment of water bills that will become a more relevant source of revenue for the financial sector, uniting local consumers with global finance.

6. A vision of a financialised future in Portugal

This paper examined the future of finance in the provision of housing, pensions and water, drawing largely on the empirical material compiled for FESSUD. The Portuguese case studies were brought to bear on the impacts of finance and of financial crisis on a semi-

peripheral country within the EU that has followed similar processes as those of the most financialised core countries, and that has been particular hit by the GFC crisis.

Like other EU countries, finance has expanded considerably in the economy and has penetrated various domains of social provisioning and infrastructure. The financial sector has known what has been labelled as a process of modernisation associated with privatisation, liberation and reregulation processes favourable to the expansion of financial interests. Symbolising its semi-peripheral position in the EU, the most remarkable feature of the financialisation of the Portuguese economy and society is the rise in private (in the case of housing) and public (in the case of water) debt, channelled to the construction, the real estate and utility sectors, and households through mortgage markets. The unprecedented access to foreign bank loans, together with the small size of the Portuguese semi-peripheral economy, constrained the development of capital markets more typical of financialisation processes of core economies.

The three case studies have exposed systemic trends, namely the domination of a neoliberal agenda promoting the expansion of markets and commodified forms of provision, such as liberalisation of capital flows, the promotion of credit as the privileged form of producing and accessing increasingly privatised and commodified goods, and the corporatisation of public entities. It has exposed the semi-peripheral nature of the country within a highly hierarchical and unequal financial system, leading to the exponential growth of private debt and ultimately to a sovereign debt crisis when the state could no longer finance itself on international markets. The result has been a most severe economic and financial crisis, compromising both financial and non-financial national interests, favouring the entry of foreign capital into the country. And it has exposed the context-specific nature of each of the three systems of provision analysed, bringing to the fore the nature of the goods or services provided, relevant agents, processes and history.

As the most commodified system under analysis, the evolution of housing most closely followed that of most financialised countries, contributing to the escalation of household indebtedness and the rise of homeownership, reproducing and amplifying social



inequalities. As the least commodified system, pension provision is still in the domain of the state, with a relatively small and highly segmented private pension market. While still in the hands of public entities, the recent corporatisation of the water sector has made it more attractive to private and financial interests, with imminent new waves of privatisation. Taken together, the case studies illustrates well the plasticity of finance and how it is able to bypass context-specific hurdles (e.g. lack of financial viability of certain investments that remain in the hands of the state), and how its influence may be exerted through more direct or indirect ways (e.g. attractive favourable tax treatments or imposing financial principles on management), being able to penetrate different institutional realities, private and public, through the prerogative of capital to impose its own standards.

However, the severity of the GFC crisis in semi-peripheral countries also exposes constraints on, and pressures for, the continued expansion of finance. Considering the role of loanable capital in leading financialisation processes in Portugal, the prospects for the expansion of finance are now more limited as domestic agents now have more difficulty accessing loans. But this entails new opportunities for foreign actors in particularly attractive segmented markets, entailing a more relevant role for foreign capital markets. Thus, and notwithstanding all caveats that must be borne in mind in foresight exercises, we can anticipate a qualitative change in the future of financialisation in Portugal, one less extensive in scope but more intensive in form and content, strengthening the power of domestic and financial elites and their hold over state policy.



References

- Bakker, K. (2013), "Neoliberal versus Post-neoliberal Water: Geographies of Privatization and Resistance", *Annals of the Association of American Geographers*, 103 (2): 253–260.
- Bayliss, K. and Fine, B. (2016), "Finance and Economic Reproduction: Origins of the Present and Implications for the Future", mimeo, paper prepared for FESSUD project, Deliverable D11.06.
- Entidade Reguladora dos Serviços de Águas e Resíduos [ERSAR] (2012), *Relatório Anual do Sector de Águas e Resíduos em Portugal* [Annual Report of Water and Waste Sector in Portugal], Entidade Reguladora dos Serviços de Águas e Resíduos: Lisbon.
- Instituto da Habitação e Reabilitação Urbana [IHRU] (2015a), *1987-2011: 25 Anos de Esforço do Orçamento do Estado com a Habitação* [1987-2011: 25 Years of Housing State Budget], Instituto da Habitação e Reabilitação Urbana: Lisbon.
- Instituto da Habitação e Reabilitação Urbana [IHRU] (2015b), *Habitação: Estratégia Nacional para a Habitação* [Housing: National Strategy for Housing], Instituto da Habitação e Reabilitação Urbana: Lisbon.
- Rodrigues, J., Santos, A.C. and Teles, N. (2016a), "Semi-peripheral Financialisation: the Case of Portugal", *Review of International Political Economy*, 23, 3: 480-510. Available online: <http://www.tandfonline.com/doi/full/10.1080/09692290.2016.1143381>
- Rodrigues, J., Santos, A.C. and Teles, N. (2016b), "As Pensões no Casino? Financeirização e Insegurança Social" [Gambling with Pensions? Financialisation and Social Insecurity], in *A Financeirização do Capitalismo em Portugal* [The Financialisation of Capitalism in Portugal], Lisbon: Actual, pp. 143-76.
- Santos, A.C. and Teles, N. (2014), "Recent Trends in Household Financial Behaviour", mimeo, paper prepared for FESSUD project, Deliverable D5.03.



Santos, A.C., Serra, N., and Teles, N. (2015), "Finance and Housing Provision in Portugal", *FESSUD Working Paper Series* No. 79, January 2015, <http://fessud.eu/working-papers/#WP8>

Santos, A.C., Lopes, C. and Costa, V. (2016), "FESSUD Finance and Well-Being Survey 2014", *FESSUD Working Paper Series* n° 130.

Teles (2016), "Prospects for Financialised Water Provision: Going Beyond Public/Private Ownership", mimeo, paper prepared for FESSUD project, Deliverable D11.06.



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

THE ABSTRACT OF THE PROJECT IS:

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

THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
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
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

The views expressed during the execution of the FESSUD project, in whatever form and or by whatever medium, are the sole responsibility of the authors. The European Union is not liable for any use that may be made of the information contained therein.

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