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Beyond the Neoliberal Watershed.
Dis-continuities in the neoliberalisation of urban water provision

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1 Introduction

1.1 A very peculiar commodity

Water is an irreplaceable component of human metabolism and, consequently, a material entity at the centre of multiple social practices, differentiated historically and geographically, which endowed it with substantive cultural meanings. Location, collection and preservation of freshwater intertwined with religious and mythological believes, rites of passage and collective practices that reproduce the social bonds, well before a technical knowledge on water infrastructure developed in ancient time. Commanding the water sources has been an intrinsic component of the exercise of sovereignty, an expression of material domination and a source of legitimacy. In the broadest possible sense, the use of water is embedded in all the processes repeated daily for satisfying the needs of human life. The socio-historical ubiquity of the concern for clean water and its inescapability is a common trait of humanity —and of the biological world at large. Moreover, it is meta-historical: it transcends the specificity of historically situated human experiences by recurring almost unvaried in individual existences.

However, the social responses to this basic human need do vary both diachronically and synchronically. Historical societies are always involved in the transformation of material elements into new useful forms: this constitutes the basis for social reproduction. The response to human needs involves an incrementally complex process of production and reproduction of the use-values involved in their satisfaction, a process that further develops the use-values required —as Karl Marx has long-ago noted. Moreover, this process does not happen in material space devoid of meaning. Rather, it goes together with the modification of cultures. The outcomes are material products imbued with meanings about e.g. their availability, making, or mode of consumption: socio-natural goods.

The radical necessity of water as a use-value, or the fundamental role of water as a socio-nature, can be broken down into two macroscopic rubrics: water needed for human consumption and the connected wastewater —water as a final consumption good— and water employed in agricultural and industrial processes —water as an input of production.

Water is a crucial socio-natures in one more fundamental sense. Freshwater —the only type of H_2O which enters plants and land animals, included human, sustenance— is widely receptive of negative externalities generated by anthropogenic interaction.

Freshwater is in essence a renewable resource. The hydrological cycle ensures the spontaneous recharging of its sources. Despite the mounting global environmental degradation, and the weak socio-political response to anthropogenic climate change, humanity was not able —yet— to break this fundamental planetary metabolic process. However, hydrological cycles differ widely in the various geological and climate areas of the world. The expanding debate among academics and practitioners on deteriorating water availability correlated to climate change is increasingly making us aware of the reality of water scarcity.

The patter of rain discharges, the availability of rapidly replenishing surface water (e.g. rivers and lakes), or of groundwater are but a few of the parameters that influence site-specific water availability. Climate scientists have placed the most damaging effect of climate change at this level of the hydrological cycle. The changing global temperature, in particular, is causing the intensification of extreme weather events (specifically floods and droughts), adding a stress factor to regional water availability.

Drought- and flood-prone regions are increasingly more affected by these conditions, which are spilling over in traditionally non-water-stressed regions.

In this first regard, water scarcity is connected to the changing space and pace of the hydrological cycle due to anthropogenic climate change. Water resources are damaged by their deep interconnection with global climate dynamics. The direct impact of water withdraws on generating this harmful transformation in the hydrological cycles is negligible: global emission of greenhouse gases is the causal factor behind climate change-induced water distress. Reducing water demand in the face of changing resources' recharging is an adaptation to (i.e. reducing the impact) and not a mitigation of (i.e. reducing the causes) climate change.

Water can become scarcer following a second social development with large environmental consequences: population growth. Here, the focus is on the demand-driven reduction of freshwater availability. It is important to re-state that water is renewable, thus its consumption does not reduce the overall future absolute quantity of the resource. On the other hand, due to the mismatch between the timespan needed to the reconstitution of freshwater sources and the spatial dislocalisation induced by anthropogenic climate change, accessibility to freshwater is affected by human (over)abstraction. The balance between the differential uses of freshwater —for final consumption, as an intermediate input for agriculture, industry or energy production— has to be struck.

Water can become scarcer in one further way: by becoming useless to human consumption because of high level of pollution. Productive activities, if not properly regulated and monitored, tend to deeply impact downstream freshwater sources by discharging —willingly or by unnoticed spillovers— harmful substances into surface or underground water. The natural position of freshwater sources as recipients of negative externalities deriving from human activities may pose a threat to the availability of clean water even in non-water stressed areas. By the same token, the role of water as a vector of diseases is compounded by the discharged of untreated blackwater into streams.

These few specifications should make clear that water scarcity is an intricated and multi-layered phenomenon, quite differently from the simplistic depiction —often favoured in public discourses— of water becoming scarcer because of increased (final) consumption.

The necessity of clean water provision, its role for public health, the interaction of water availability and other human activities —included epochal phenomena like climate change— are part of the sectoral complexity of studying water.

The awareness of this complexity, at various degrees of self-reflection, underpins the development of material cultures of water, stretching back to the development of historical civilisations, a broad field of human activity marked by parallel evolution, historical dependency and innovative breakthrough. The richness and varieties of these historical relationships with water is difficult to capture in even sketchy terms.

It is nonetheless important, for the aim of the present research, to briefly contextualise the emergence of the twentieth century public paradigm of water provision and regulation in industrialised countries.

The chaotic urbanisation which characterised the modern era put cities at the forefront of sanitary and security threats. The fast pace of urbanisation towards historical economic centres put the pre-modern water infrastructures under stress. In London, for example, untreated water from the Thames was complementing the medieval groundswell system. For the better part of the modern era, private enterprises were granted the right of abstraction and distribution of water to households, forming a loosely integrated water network —serving a minority of the population (Spar and Bebenek, 2009). The global episodes of cholera epidemic occurring in the nineteenth century influenced the stance of authorities on the renewal of water and sanitation network and the need for tighter sanitary controls. The London cholera outbreak of 1854, in particular, helped advancing medical knowledge on the relation between contaminated water and the spread of the disease. John Snow's observation of the spatial pattern of the contagion, clustered around a street handpump —whose well was later discovered to be contaminated by sewage— gave the crucial evidences for recognising cholera as a water-borne disease.

The recognition of the disease-prone nature of clogged urban environment, the close proximity of different social classes in the industrial city-scape and the growing conflicts over working and living conditions of the working class led to the diffuse adoption of water supply municipalisation across Europe and US around the turn of the century (Millaward, 2005, pp. 41-54).

Gandy, elaborating on a Foucauldian insight[1], proposed to interpret the expansion of sanitation and clean water supply in the urban nineteenth century through the lens of the "bacteriological city": «a new socio-spatial arrangement that could

[1] From the late seventeenth century, following Foucault's (2007) analysis of Europe, whose trajectories are at the —partial and contestable— centre of modern urban development, towns became the preferred units of intervention and self-reflection for a new governmental reason. Policing the people gathered in the urban space —the quantity, occupation, health, movement, consumption habits— constitutes one central element of governing the population.

simultaneously ensure a degree of social cohesion at the same time as protecting the political and economic functions of the modern city» (2004, pp. 365-6).

The nature of the investments in water and sanitation network —limited profitability if the bulk of the population was to be served and widespread health risk if it was not— put water provision at the cutting edge of "municipal socialism", the trajectory towards local public control of utilities in global metropolises at the end of the nineteenth century.

1.2 Social or market produce?

The post-war period was characterised by the great involvement —often a result of war effort itself— of states in the development of national industrial base. Public financing, control and even ownership —in countries building up a nationalised industrial sector— of utilities became a common place. The provision of ancillary collective goods to the private productive sector, such as an infrastructural system for the circulation of commodities, or stable and capillary electricity and water provision, became a guiding principle of state intervention. Dams and other large-scale infrastructural investments for water supply became one material emblem of economic modernisation (Bakker, 2003). The sector was an integral component of the post-war mode of development: as a fundamental input of industrial production, a source of public demand for private sector produce, an essential element (with electricity) of the mass consumption of new items —e.g. washing machines— and a lever for tempering social conflicts with affordable service provision (Swyngedouw *et al.*, 2002).

The subsequent period, that will be the focus of the present work, saw the radical reconfiguration of the global discourse on water management. The 1980s and early 1990s saw the emergence of calls for reforming the sector so that it encompassed modern and businesslike practices. In one of the most thorough upheaval of the post-war consensus, the conservative British government of Margaret Thatcher moved the entire sector out of public control in 1989. Despite it has hardly been replicated elsewhere, the full privatisation of water and sanitation in England and Wales set a new —highly demanding— standard for modernisation of the sector. At various degrees, countries in the Global North experimented with the inclusion of private capitals in the management, financing or ownership of water infrastructures. The new model was taken as a benchmark by international institutions —e.g. World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development— which further eased its diffusion through their policy suggestions and reforms recommendations (at time better understood as impositions) to countries in the Global South. It the latter case, the institutions of an inclusive welfare state were hastily reframed as the great source of inefficiency and economic losses, often before they were fully accomplished.

The privatisation blueprint proved, however, quite controversial. The hard-headed privatisation programmes met increasing opposition, and the international recipe for modernising the water sector shifted to softer, hybrid participation of privates in the operation and ownership.

Geographical and institutional differences play a major role in the fragmentation of the critical studies on the modifications of the systems of water provision. Despite this caveat, it is possible to identify a prevalent cognitive frame that has been deployed for explaining these transformations: the emergence of neoliberalism. The tendency to commercialisation, marketisation and commodification of the water sector has been inscribed in the broader neoliberal turn in global capitalism (Harvey, 2005).

The neoliberal era is associated with a variety of causes and effects, so that expounding the dimensions of neoliberalism, and devising a workable operationalisation of the concept, will be the topics extensively dealt with in the next chapters.

Three more introductory aspects should be touched upon here. First, I decided to look at the mutations of the water sector through the lens of the neoliberal reformation of public institutions. In other words, I tend to place water services firmly in the camp of the welfare state. This choice, not necessarily the most obvious, has consequences on the type of problems that are here privileged. The engineering and environmental side of water management, for example, are seldom and instrumentally treated.

Furthermore, the discussion will hinge upon the provision of water for final consumption, and quite narrowly on provision to households in an urban context. This specific focus reflects the dimension of water provision that is, in my opinion, bearing the closest connection to the welfare state. Moreover, it seems to me that this specific dimension is still largely perceived by beneficiaries as falling in the sphere of institutional duties and social rights rather than in the sphere of market exchange and consumer's choices.

Water services have been, at least in the modern era, a crossroads of different normative (value-orienting) and cognitive (action-guiding) frames (Campbell, 1997). Re-inscribing water services in welfare system means postulating that, at least before the processes of neoliberal reform took place, the provision of water was animated by normative concerns related to state's duties and cognitive prescriptions similarly revolving around public actions.

In a sketchy summary, in the former are included normative frames that justified the public provision of water services on the ground of 1. ethic (de-commodify basic needs), 2. redistribution (ensure a chosen level of equity in accessing the good) and 3. public good provision (avoid the negative externalities deriving from inefficient market allocation) (Heat, 2011). In a symmetrical fashion, the cognitive frames of public provision may hinge upon 1. political objectives (public ownership is consistent with party's programme and the interest its constituency), 2. social objectives (public ownership allows for subsidised access and redistributed costs) and 3. economic objectives (public ownership ensures the desired level of output and avoids the formation of private natural monopolies).

The transformation related to neoliberal reforms deeply modified some of these principles and objectives, and altogether negated others.

Second, and subsequently, the character of water as a socio-economic right will be here privileged over the microeconomics thematization of water consumption.

The mainstream consumer theory, despite the claims of generality and completeness, expunges actual and commodity-specific modalities of consumption from its account. This homogenising tendency seems particularly ill-suited for thematising water consumption. It overlooks the non-economic dimensions of water, so that both the reduction of this complex socio-natural entity to a resource and the subsequent reduction of this resource to a commodity are naturalised. The reductivism of mainstream economics marginalises at one stroke the symbolic and practical agency recognised to water bodies by —especially, but not limited to, non-western— cultures and the socio-political content of access to water in contemporary societies. Focusing on the latter, universal provision of water and sanitation can be seen as an emblem of modern citizenship as much as dams were the material emblem of economic modernisation.

Despite the fading away of the public-sanctioned right to water as a universal social right —in the limited number of countries that enjoyed it— access to water and sanitation is today a basic claim of the "excluded", borrowing Burawoy (2017) conceptualisation, as it has been in the urban landscape of the past.

The chartist struggle over the living conditions of middle-nineteenth century English working class and in the historically black working-class neighbourhoods of South Africa have in common the claim of proper water and sewerage provision as one unavoidable element of material recognition and inclusion.

Following Burawoy argument, as this basic consumption good undergoes a process of commodification, in Polanyian terms, a parallel process of ex-commodification —increasing exclusion from market provision— affects the more fragile strata of society. The modification of the water provision imposed by neoliberalisation cannot smoothly alter the cost of the service, and thus the level of consumption: putting at stake a symbolic and material element of inclusion —integrated in the culture of consumption— it entails a profound, and contested, socio-political transformation.

Finally, third, the urban space is here taken as an instrumental level of investigation. This is particularly relevant for the analysis of the case study, but it holds true in a broader sense. As noted above, water provision represents a large and diversified field of enquiry. This work limits itself to water as a final consumption good, with a specific concern for domestic users. The urban focus allows to target this research aim with a certain ease.

Despite not being an explicit theoretical concern, the urban setting is invested by the same set of socio-economic transformations brought about by neoliberalism.

The metropolitan areas have been at the forefront of the shift of public administration towards market operations.
Municipalities have been recast, over the past decades, as engine on growth in the global developmental discourse. Often disciplined by the reduction of transfers from central government, cities are incentivised to become actors on the capital markets and hotbeds for entrepreneurial innovation. The necessity to create the so-called ‘good business environment’ for attracting highly mobile capitals, loosely connected to any territory, results in a «zero-sum inter-urban competition for resources, jobs, and capital» (Harvey, 1989, p. 349).
The quest for higher levels of efficiency in the urban administration is inscribed in this framework. Cities should operate, in their search for private financing, partnerships and investments, as sound enterprises. Keeping the cost of the public apparatus in check becomes a fundamental indicator of budget health and creditworthiness. The level and cost of service operated by municipalities became thus a fundamental indicator of financial viability of public administration, and a barometer of the need for the restructuring of municipal finances.

1.3 Research questions and methodology

Water provision is the subject matter of a number of academic disciplines, ranging from technology and engineering to welfare and resource economics to anthropological, geographical and sociological studies, to name but a few.
The centrality of this good to human life, and the ubiquity of the resource across social activities, multiplied the knowledge related to its uses, meanings and interconnectedness to other resources.
The field of critical studies on water provision is not less characterised by this high degree of fragmentation. Political economic, political ecological, critical geographical and anthropological approaches were deployed to the study of water provision. The interest in water issues was certainly compounded by the

politicisation of the field by the diffuse social mobilisations against privatisation, in particular in Latin America and Southern Africa.

This original push transmitted certain initial commonalities to research field. The process of market-oriented reform was declined in terms of privatisation, at the time the favoured epistemological commitment and practical modality spearheaded by international organisations with their policy suggestions. The equation of this policy programme with the then new global developmental agenda —the so-called Washington consensus— was equally diffused.

The application of the category of neoliberalism to this field of study, while helping to frame a coherent critical perspective on market-oriented reforms, did not help the consolidation of a common analytical framework.

The highly diversified modalities of diffusion and implementation of neoliberal reforms, a characteristic which became an integral part of the theorisations on neoliberalism, was reflected in high degree of differentiation —along geo-institutional lines— of critical studies on water provision. The heuristic value of focusing on the differences in existing paths of neoliberal reform, rather than constructing a checklist of policies that conforms to neoliberalism, is well established in the literature. I will not argue against this theoretical foundation, which is a rather fundamental component of the empirical analysis of neoliberalism. However, the vague status of what constitutes a neoliberal strategy has been widely recognised as a problematic element by critical scholars. The problem becomes quiet concerning when the category is translated from critical theorical contributions to more empirical ones. In the case of water provision, there is no established common framework to analyse sectoral transformations in the context of neoliberalism. Studies focusing on actual geo-institutional manifestations of neoliberal water reforms not only expound localised and diversified variations of neoliberalism, but tend to employ widely differing theoretical constructs of neoliberalism and of its consequences. If comparing the results of neoliberalism on highly diverse biophysical, socioeconomic, and geo-institutional environments may lead to homogenisation, applying a common analytical framework to different geo-institutional spaces may not ends in one of the “pitfalls of comparative research” (Bakker, 2009).

The gap in the literature proposed here is thus the redundancy and partial theoretical seclusion of research agendas focusing on the impact of neoliberalism on (urban) water provision. The research aim is to explore the feasibility of a common theoretical framework for this field of critical studies.

The object of this explorative research is developing a multi-layered interpretative tool for the analysis of the urban water sector, and to test it through empirical research. I surveyed and tried to merge different strands of critical literature. The resulting scope of the research is admittedly broad.

The empirical case study chosen is the water and sanitation provider of the city Johannesburg, Republic of South Africa. The municipal water provision of Johannesburg has been in the past the target of a successful popular mobilisation against the assignment of a management contract to the multinational utility corporation Suez. The high political sensitivity of water and sanitation in the country led to national legal framework recognising water as a basic human need, partially disconnected from market-oriented management. The case study is identified as a possible occurrence of a post-neoliberal water provision.

I adopted a qualitative data collection and analysis methodology, applying the interpretative framework developed in the theoretical part of the work.

The following questions guide the research:

q. *Is it possible to devise a common theoretical framework for the analysis of neoliberalisation processes in urban water provision?*

q.1 *Which dimensions of analysis offer the relevant variables for capturing the continuities and discontinuities in the neoliberalisation of water provision?*

q.2 *In the case under scrutiny, if a degree of continuity in the process of neoliberalisation is found, which organisational and operational features bear it?*

The case analysis is less concerned with assessing the causes of the impasse in the original neoliberal project, which would imply broadening the research focus to encompass a large number of contextual factors. It instead aims to delineate the changes in three key dimensions of the provision systems, corresponding to the three conceptual constructs defined in the theoretical framework.

On a broader level, the research is expected to contribute to the debate about the heuristic utility of the concepts of “neoliberalisation” in understanding current capitalist developments.

The research relies upon the desktop review of scientific literature as well as key technical information (e.g. companies' reports and programmatic papers; sectoral policies of municipalities and local governments; audits by independent authorities; releases from citizen organisations and customer pressure groups). Secondary data have been complemented by direct data collection via semi-structured interviews with key informants (e.g. community advocacy representatives, policy experts, municipal union representatives).

The work is organised as follows. The discussion of the concept of neoliberalism is conducted following an historical-theoretical line of argumentation (Chapter 2). The regulation school, international political economy and historical-genealogical approach are surveyed.

The concept of neoliberalism is subsequently confronted from an analytical point of view (Chapter 3). The three dimensions constituting the interpretative framework are here individuated and the connected literatures discussed.

The operationalisation of the concept of neoliberalism according to the three analytical dimension is applied to the research field of urban water provision (Chapter 4). The relevant sectoral literature is discussed, and the results of desk-research on the empirical case of England and Wales are presented.

Finally, the interpretative framework is applied to the case study (Chapter 5). First-hand data are analysed, and provisional results discussed.

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2 Theorising neoliberalism

The unfolding of the financial crisis revealed the fragility of the paths to growth embraced by the world's most advanced economies. Despite the initial attempt to direct the public outcry towards the behaviour of the financial sector managers, the scale and pervasiveness of the collapse pointed at a systemic failure rather than individual felonies.

The mutation of the financial crisis, rooted in the US and European high-end financial firms, first into a global recession and then, in Europe, into a sovereign debt crisis made the things worse. The combination of fiscal stimuli to economy and cost of the banking sector's consolidation inflated the budget deficit of member states, eventually leading the European Union (EU) to a prolonged financial instability. The spread between interest rates on long-term governmental bonds peaked in the period 2011-2012 (see figure 2.2), triggering a response from the European institutions. The policy mix implemented by EU, and European Central Bank (ECB) —with the support of the International Monetary Fund (IMF)— for solving the second crisis was of a "carrot and stick" kind. The central bank was consolidating the Euro Area with the acquisition of sovereign bonds, the most consistent part of the quantitative easing programme. The Commission and the Council, on the other hand, fostered reforms aiming at fiscal consolidation and increasing competitiveness of member states. The recipe included adopting the so-called Fiscal Compact (*Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*), aiming at tightening the rules for members' budget deficit and public debt. Secondly, European institutions promoted resolutions advocating structural reforms —e.g. enhancing labour market flexibility, reducing labour cost vis-à-vis productivity, shrinking pension and health expenses.

The Greek bailout proved the rigidity of the reform packages, and the commitment of EU institutions to fully implement fiscal discipline at the expenses of the weaker economies on the continent.

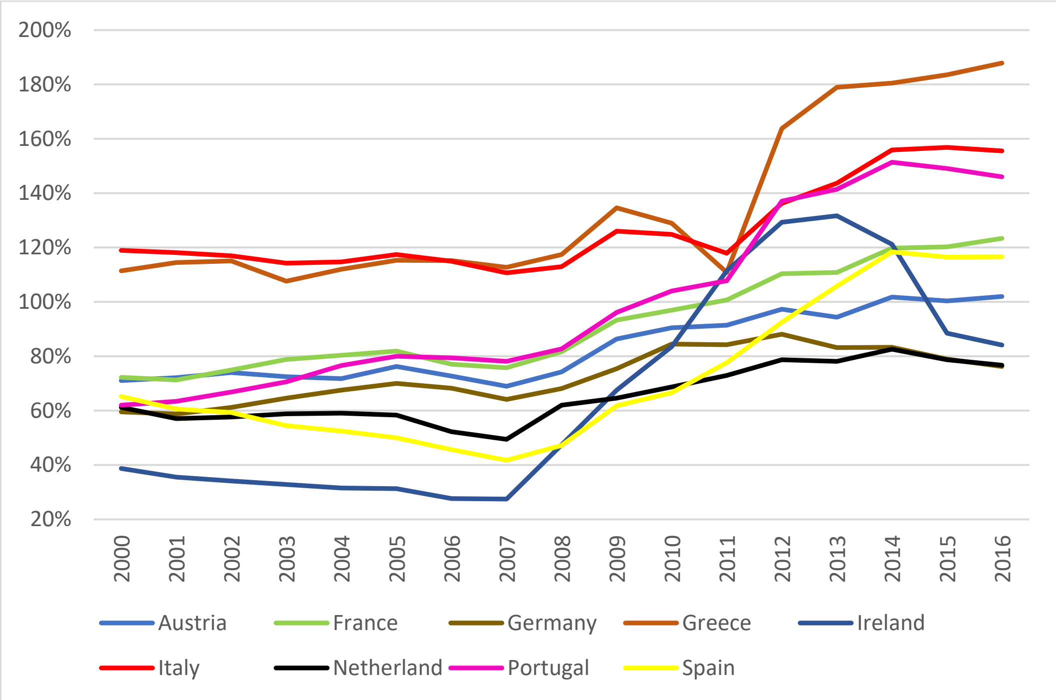

Figure 2.1. Debt to GDP ratio (%); Selected EU members.

Data source: OECD, General government debt.

The EU has not displayed an eccentric path towards recovery from the Great Recession: in several other countries outside the Union, budget cuts and policies fostering competitiveness were perceived as the only available option for reinstating growth. The US have been the only notable exception in the recent past, coupling expansive fiscal policy with extended economic stimuli under the Obama's administration. However, even the less fiscally concern US Federal government was not able to redress the dire socio-economic condition bestowed upon its citizens by the unbalanced growth of the past thirty years. The crisis helped uncovering the exceptionally unequal structure of modern days advanced capitalist countries, not to mention the developing ones.

The important contribution of Piketty (2014) to the debate on inequality offered a clear summary of the reversal occurred since 1980s. The income and wealth distribution in advanced economies underwent a process of concentration towards the top earners. In the US, the dynamic was especially pronounced.

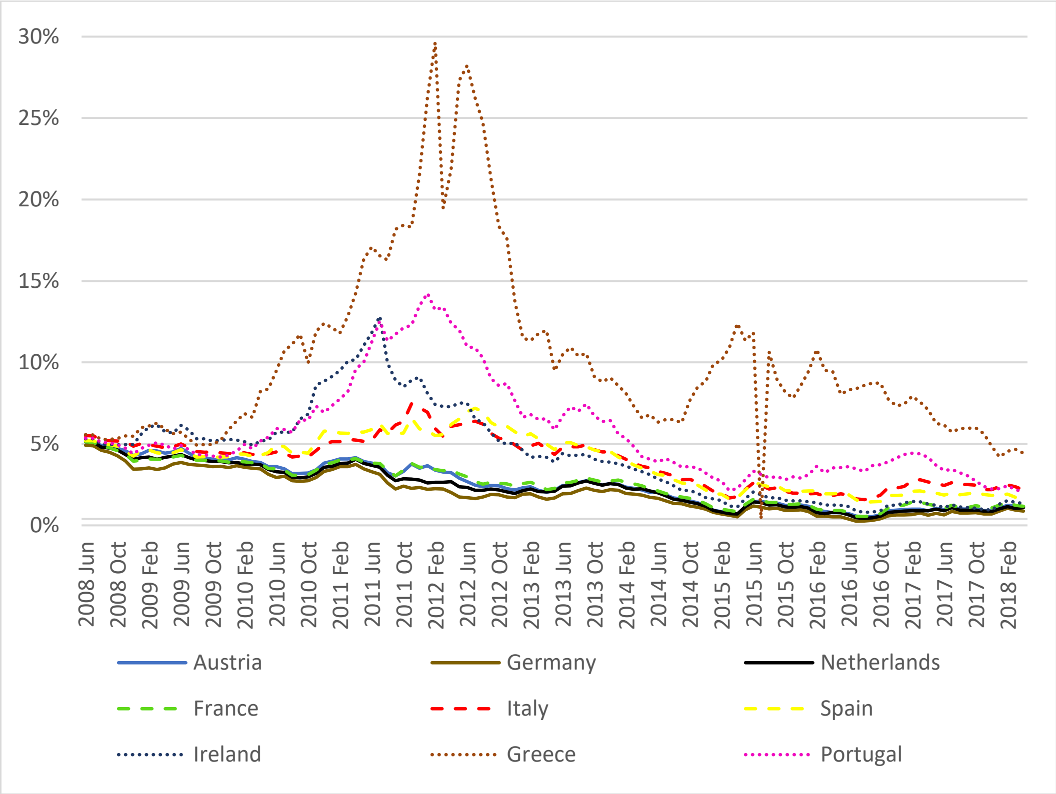

Figure 2.2. Long-term interest rate (%). Selected EU members

Data source: ECB

Over the same period, wage share of GDP fell world-wide (see figure 2.3), while the tendency toward concentration of income was reflected in the sharp increase of top level managerial jobs. Finally, the wage remuneration stagnated vis-à-vis accelerating labour productivity in the OECD countries (see figure 2.4).

The rise of income and wealth inequality within the present affluent societies is just a symptom of the deep change impressed by the last thirty years on socio-economic relations. Scholars recognising that large inequality of outcomes is a problem per se, and not an acceptable result of some “natural lottery” when inequality of opportunity is addressed, have identified various factors contributing to the polarisation of income and wealth in the developed countries.

A first theme is the diminishing power of organised labour, unable to push for a fairer allocation of profit at the “point of production” when confronted with the shrink of collective bargaining and the ever-present threat of delocalisation.

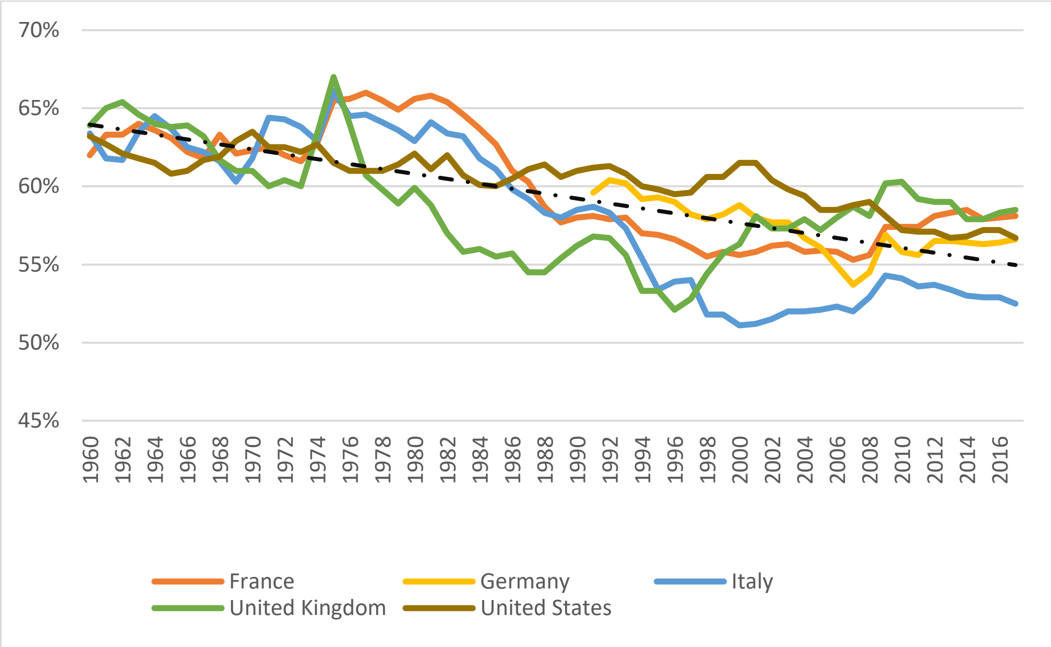

Figure 2.3. Wage share of GDP in US and Western Europe.

Data source: ILO

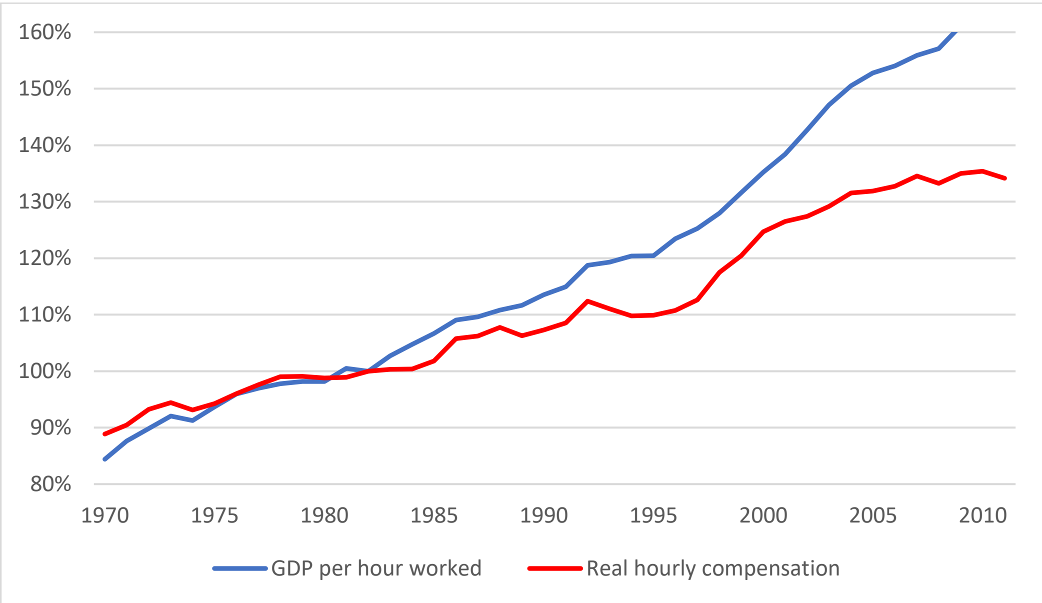

Figure 2.4. Growth of real compensation and GDP per hour worked, US (1982=100)

Data source: U.S. Bureau of Labor Statistics, Real GDP per Hour Worked in the United States and U.S. Bureau of Labor Statistics, Nonfarm Business Sector: Real Compensation Per Hour.

International competition introduced a race to the bottom for reducing labour cost and easing enterprises' discretion to hire or fire employees. Moreover, stagnating wages allowed for a general —and at time spectacular, as in the US case— extension of debt instruments to consumption purposes.

To make things worse, a large number of industrialised states applied significant permanent cuts to income tax for higher income earners, and re-oriented fiscal policies by embedding tax holidays for business revenues and very modest taxation on financial gains and transactions.

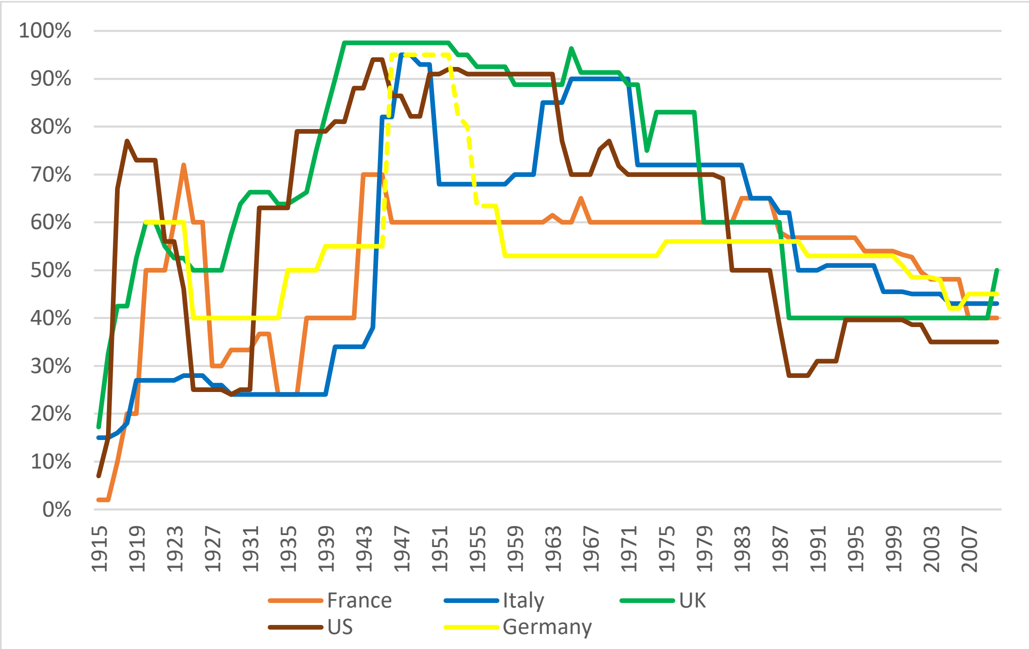

Figure 2.5. Top marginal income tax rate in in US and Western Europe.

(Data for Germany 1946-55 are uncertain —dashed yellow line— due to post-war military jurisdictions).

Data source: Genovese, Scheve, and Stasavage (2016).

Finally, the prolonged erosion of the state provision of public goods —and the equal expansion of private or quasi-private provision— bit into the pockets of the lower-middle income households, while removing an important tool for inducing redistributive effects.

The overlapping of this set of observed factors is needing an explanation, which may be traced back to a common causation. As a first approximation, the common cause of the regressive redistribution of wealth experienced in the last three decades is identified with the consolidation of the neoliberal agenda.

Neoliberalism is thus preliminarily understood as the collective noun for a paradigm shift in managing social relations, occurred firstly in the Anglo-Saxon countries by the time they were facing the hardest economic crisis since the 1930s —before 2008 established a new term of reference.

The use of the noun neoliberalism for characterising this transformation is all but uncontested. Neoliberalism as a concept has a non-linear intellectual history. Positive uses are scattered and date back to the period preceding what we will thereafter call the neoliberal hegemony (Thorsen, 2010). More significant is the critical meaning of the term, which was introduced in the late 1970s and risen to prominence by the 1990s. However, there is little agreement among critical scholars on what identifies neoliberalism.

On the other hand, references to neoliberal thought and policies have been largely absent from mainstream economics, sociology or politics until very recent years. At first, the concept of neoliberalism established itself as an *explanans* in a niche epistemological sector. Post-Fordism, cognitive-turn in capitalism, and globalised capitalism are examples of competing critical theoretical constructions explaining the socio-economic change occurred by the 1980s.

In the post-crisis era, the term gathered some momentum among non-critical academics and the general public. In June 2016, for example, a paper titled *Neoliberalism: Oversold?* was published by the IMF (Ostry *et al*., 2016). The authors, all employed at IMF Research Department, reviewed some tenets of the neoliberal agenda. The opening of capital markets to international inflows and outflows, the reduction of states' direct role in economy through privatisation and austerity and the impact on growth of regressive income redistribution were the objects of their appraisal. It is worth noting that those policies represent the economic agenda pursued by the Fund over the last decades.

The remarkable, albeit tardy, reconsideration of IMF's main economic and political programmes reinforced the perception that neoliberal hegemony entered a legitimacy crisis during the decade following 2008 financial meltdown.

The IMF partially modified its long-lasting policy advice in the wake of the financial crisis. Economic stimuli —i.e. and expansive monetary and fiscal policy— were officially recognised to be the only viable way out the recession.

Moreover, it was stressed that «central governments or sub-national governments that are facing balanced budget rules may be forced to suspend various spending programs (or to raise revenue). Measures should be taken to counteract the procyclicality built in these rules» (Spilimbergo *et al*., 2008, p. 5).

However, these openings to a substantive intervention of the states in strengthening demand and bring the private sector out of the deadlock were swiftly reversed during the Euro area sovereign debt crisis. A "more of the usual" mentality came back to prominence among economic professionals and policymakers across the political spectrum. But the lasting effects of the recession and of the weak and unevenly distributed growth did not go away as swiftly. First, a series of uprisings, geographically dispersed and often different in nature and claims, erupted across the advanced and developing countries alike. Second, several consecutive electoral turns across the world consolidated the impression of a mounting wave of discontent towards established political parties and their handling of the post-crisis transition.

The dire political situation the US and the EU are presently facing is largely a result of this mismanagement. As the business-as-usual recipes for relaunching economic expansion seem to lose traction, and progressive alternatives are lacking or have been ruled out as unrealistic, a new breed of hyper-conservativism acquires prominence.

However, the more what was the consensus view seemingly finds itself in an uneasy position, the less the political-economic rationality that brought us here seems to be fully understood —let alone discarded.

It is therefore a useful exercise trying to locate the path(s) to neoliberalisation that characterised the last decades through an historical and theoretical reconstruction of its main steps.

2.1 An introduction to a long-lasting debate

The exposition of the debate on neoliberalism can be challenging. The body of literature on the theme is all but exiguous. The richness of contributions is paired with the wide range of approaches applied to the topic. At a first glance, neoliberalism appears to be a vague term attached to diverging research paths.

Finding a degree of congruence between the theories of neoliberalism is not, however, an illusory task.

The starting point of the discussion ought to be the recognition that neoliberalism remains a contested notion. Not only the concept is primarily endorsed by the critics of neoliberalism and ignored by the wider academic community. There is also a substantial disagreement between proponents on the definitory scope of the term. It is intellectually honest to concede that neoliberalism is a polysemous word, rather than trying to establish *a priori* a specific meaning. Only the analysis of the theoretical traits embedded into the various definitions may allow to reconcile them into a single, if patchy, one.

There is at least a certain degree of consensus on the temporalisation of the neoliberal takeover. The concept denotes the very near past. As it is generally the case with interpretations of contemporary phenomena, the boundaries of the category are mobile. The begin of the neoliberal age is thus moved up or down the ladder of history, according to the crucial event that is taken as reference. Even more controversially, the end date of the period is assigned by some scholars to the first decade of the 2000s. For others, it still has to come.

Authors generally agree on the historical conjuncture that allowed the new paradigm to take off: neoliberal ascent was cast against the backdrop of the crises of the 1970s. The severity of the economic downturn was matched by social unrest in both US and Europe.

Yet, by the end of the 1980s the picture changed dramatically: economy entered a financial euphoria, the workers' and students' movement faltered, civil rights and women rights received all but formal recognition. The Soviet Union, encumbered by its internal mismanagement and embroiled in an arms race it cannot win, collapsed. This watershed marked the beginning of the neoliberal period.

The significance of the 1980s transition goes well beyond the —contradictory, at the very least— upswing in economic activity or the weakening of social movements. A deep transformation took place across the institutional, political, social and cultural spectrum.

The remedies to economic slowdowns were radically revised, under the influence of the so-called supply-side approach. The systemic arrangement of international trade, built on the premises of balancing exports with the expansion of the national industrial base, underwent several rounds of renegotiation. This, combined with the lift of capital controls, paved the way to the globalisation of economies.

The traditional progressive agenda of left-wing parties, hinged on state's interventions for fostering social equality, was marginalised from the parties' platforms and then discarded. A parallel process emerged in the reorganisation and resignification of welfare endowments and the provision of public goods. The social rights recognised by the welfare state —e.g. housing, basic services, unemployment compensation, labour laws— were questioned because of their perceived inefficiency and lack of proper incentives to recipients. Finally, the decline of collective identities has been paired with the diffusion of a culture of self-blame and self-promotion.

A wide change as the one sketched above could not happen suddenly and had not occurred organically across all the dimensions. The processual nature neoliberalism is captured at best by the notion of neoliberalisation, which will be addressed in the next chapter.

While the general trend of neoliberalisation has been regarded by scholars as a cross-scale and national borders phenomenon, the problem of precisely identifying neoliberal policies and institutional arrangements has proved much more difficult to address. A rather strict approach saw in the institutional change brought about by the new conservatism of Margaret Thatcher and Ronald Reagan the proto-type of neoliberal policymaking (Albert, 1993; Dore, 2000). If it is true that the new course was set in the Anglo-American economies during the long conservative wave of the 1980s, this interpretation runs the risk of equating neoliberalism to the mimicry of the socio-economic systems of US and UK.

This approach, rooted in the argument that differences in institutions, regulative frameworks and cultures separate advanced capitalist countries into two diverging socio-economic models, has animated the varieties of capitalism (VoC) interpretation of political economy (Hall and Soskice, 2001). The two typical varieties, liberal market economies (LME) and coordinated market economies (CME), represented the opposition between the neoliberal axis across the Atlantic and social market economies in continental Europe —the latter epitomised by Germany.

Ironically enough, in the early 2000s, when the framework of VoC came to dominate the field of comparative political economy, Germany undertook the extensive *Agenda 2010* reform program. Among the numerous areas subjected to reform, the reshaping of unemployment compensations under the *Hartz I-IV* interventions attracted criticisms for its neoliberal cuts to unemployment benefits and subordination of social protection to stricter requirements of compulsory work (Bruff, 2010). As convincingly shown by Baccaro and Howell in their recent important contribution (2017), the German model underwent a neoliberal transition even in the sphere of industrial relations, one of the core research interests of VoC. The coordinated bargaining process between organised labour, employers and the state tended to weaken after the mid-1990s. The German trajectory was towards a «steady erosion in the coverage of sectoral bargaining and works councils, resulting from structural economic change and the increasing willingness and capacity of firms to escape from these institutions either by geographic mobility or a series of escape routes now legitimized by employer and labor associations» (Baccaro and Howell, 2011, p. 540).

This is not equal to say that Germany was shifting towards the opposite pole of the VoC continuum. Rather, the German example highlights the shortcomings of VoC in interpreting the systemic forces underpinning capitalist development since the end of the 1970s. The focus on national characteristics is useful as long as it compels researches to take into account the historical differences between countries. The ideal typification in two mutually exclusive models, on the contrary, is blind to the trans-national and transcalar pressures inducing heterogenous sets of institutions and policy cultures to converge towards similar logic of action, if not outcomes.

The internationalisation of production, the prominence of financial markets and the quest for flexible labour markets are examples of this convergent evolutionary pressure. Moreover, the ideal types stabilised by the VoC canon seem remarkably unsuited to explain the actual historical development of national economies. Prior to the 1970s crisis, for example, UK nationalised industrial sector accounted for 10% of GDP, absorbing 14% of national investments and employing 8% of total work-force (Parker, 2009), while union density was around 55% (Freeman, 1995). The liberal market economy hypothesis is treating the reversal of this historical trajectory as the confirmation of the uncoordinated nature of the British system. Constitutional settings and electoral policies bestow on UK governments «the capacity to introduce radical changes of policy at will» (Wood, 2001, p. 259), creating excessive policy uncertainty for companies to invest into coordination. So, «while it is true that British governments are *able* to initiate policies that are not incentive-compatible with the institutional complementarities of LMEs, these policies are unlikely to succeed» (*Ibid.*, p. 260). In this way, what was to be explained is assumed as given.

As a response to the limitations of the typification proposed by VoC, scholars advanced the notion of variegated capitalism and of *neoliberal variegation* (Peck and Theodore, 2007). First, variegation, in contrasts with the variety approach, contemplates the possibility of endogenous changes in the productive and institutional national system. The reconfigurations are endogenously generated (or adopted) in relation to a specific socio-economic issue, but may circulate from a subsystem to another. This account prevents the theoretical necessity of external shocks —to which a capitalist variety may resist, adapt or succumb— to explain transformation. Moreover, it stresses the importance of the locus and conditions under which the variation occurs to understand the extent of its incremental success. Second, the variegation thesis takes into account the strategic use of economic, power and legitimacy resources to «alters the "logic"» of an established socio-economic configuration, so that «the same institutional 'shell' can be used for different purposes» (*Ibid.*, p. 755).

Finally, the approach abandons the interpretation of systemic transformations as a process of polarisation further deepening the divide between LME and CME.

New economic and institutional configurations are to be construed as hybrid forms deriving from experimental and contingent shifts in pre-existing historical formation. The resulting socio-economic structures are non-homogeneous and embedded in the past local configurations and specific political histories.
The highly differentiated landscape supported by the notion of variegation is more respondent to the factual evolution of capitalism. However, it seems an even more demanding theoretical assumption to be combined with the diffusion of neoliberal trajectories. The latter problem will be better address when an operational definition of neoliberalisation is achieved. It can be preliminary noted that the type of capitalist restructuring entailed by the concept of variegation takes explicitly issue with the idea of a monolithic and simultaneous convergence of *national* regulatory systems towards an abstract free-market model.
The notion of variegation challenges a number of epistemological constrains to which the variety school was subjected. First, the critique of the dominance of market logic is nuanced by the distrust of mainstream economics and of its models of competitive markets. Through the adoption of different strands of heterodox economics, the scholarly debate on variegated neoliberalisation was able to investigate the expansion of the market without confining itself to the highly idealised definitions of neoclassical economics. By contrast, VoC sees liberal economies as perfect representative of the orthodox model, where the market alone ensures the efficient allocation of resource through pure price coordination. The theoretical foundations of orthodox economics are implicitly accepted as criteria for gauging the degree of liberalisation of a national system. The hypothesis of variegated capitalism rejects the identity between neoliberalisation and manifestation of orthodox theory in the real world. Neoliberalisation is primarily conducted through government's regulative action, which forces the existence of markets even when their allocative efficiency is not guaranteed.
Secondly, the ontological primacy accorded to national systems is strongly questioned. The reason lies in the understanding of neoliberalisation as a constitutively multiscalar phenomenon, and not in the adherence to the narrative on the twilight of the nation states.

The repertoire of global policies has consistently incorporated neoliberal policy reforms. Transnational organisations have adopted and transmitted some core tenets of the neoliberal agenda through their policy suggestions. The institutions and treaties at the supranational level constitute relevant actors and arenas of neoliberal restructuring, with pervasive effects of legitimisation and naturalisation of the reform agenda.

On the other hand, neoliberal development —even in the institutionally complementary Anglo-American countries— proceeded trough circumscribed experimentations eroding the pre-existing regulatory framework. These experiments were often located at the subnational level, taking advantage of local economic or political crisis[2]. The migration of these policy patterns to upper

[2] The response to the urban fiscal crisis of New York City in the mid-1970s is a case in point (Tabb, 1982). As the post-war economic growth came to an arrest, the Federal programs helping local governments to cope with the social effects of inflation and rising unemployment shrunken. 'The War on Poverty' policy platform, lunched in 1964 by the Lyndon Johnson's administration, was dismantled by Richard Nixon. In 1973 the president could claim that the urban crisis was over. In other words, the Federal Government would not allocate more funds in the helping municipalities meet their mandate.

New York City had been relying on Federal transfers for the better part of 1960s, and the reduction of aids was balanced with an increase recourse to debt financing. The city's banking sector started acquiring and trading large trances of municipal bonds. By 1975 the city's debt hovered around $13 billion (Sales, 1975). Debt had increased of 12% in the period 1965-75, while tax revenues increased only 4-5%, despite the city hosted some 120 world top earning companies (Welles, 1975). The size of the refinancing effort to pay outstanding debt and interest became unsustainable. Banks started refusing to refinance the municipal budget, while president Gerald Ford's denied a Federal bailout, prompting the famous *New York Daily News*' headline «Ford to the City: Drop Dead». The municipality stood on the edge of bankruptcy.

After emergency negotiations, the banking sector agreed on the bailout of the city. The financial rescue plan was granted conditional on two main adjustment strategies: the reengineering of the governance of public spending and the imposition of austerity. The first objective was pursued via the creation of two independent authorities: the Municipal Assistance Corporation (MAC) and the Emergency Financial Control Board (EFCR). The MAC, a public-private corporation, had the exclusive right to sell New York City bonds on the market. The EFCR had direct control over the expenditure decisions of the city. It could «review, supervise, and veto if desired all of the city's financial dealings, including labor contracts, and approve the city budget» (Tabb, 1982, p. 26). On the board of directions of the two authorities sat, alongside with top public officers, representatives of the banking sector. The conflict of interest engendered by the appointment of advisors coming from the ranks of the very same financial companies which owned a large share of the municipal debt was justified as expertise-based governance.

It was no wonder that the recipe for financial recovery prioritised paying the creditors in full. The adjustment program sought to balance the budget via expenditures' cut, to direct revenues to debt repayment. The wages of all municipal workers were frozen vis-à-vis the mounting inflation. «Thirty-two million dollars was deleted from the City University budget. Subway fares were increased from 35 to 50 cents to […] 60 cents in January of 1976» (Sales, 1975, p. 29). Four public hospitals were closed; garbage collection was reduced by a third, available police protection by 25%.

institutional levels, to other territorial units or to different socio-economic spheres represents a crucial mechanism of neoliberalisation.

For better framing the mobility of neoliberal reforms through scale and space, Brenner, Peck and Theodore (2010a) subdivide the multiscalar institutional network composing the application field of neoliberalisation in three layers. In addition to the localised *regulatory experiments* and the supranational institutionalisation of neoliberalism through *transnational rule-regimes*, the authors describe a *systems of inter-jurisdictional policy transfer* at the meso-level. Here, the trajectories of neoliberalisation circulate through political, economic and knowledge centres as ready-made policy templates. Despite the standardisation of these circulating blueprints, «such policy mobilities remain embedded within politico-institutional contexts that shape their form, content, reception, and evolution, generally leading to unpredictable, unintended, and intensely variegated outcomes» (*Ibid*., p. 335).

The interaction within and between scales and spaces is by no means a linear mechanism of policy transfer. It is possible for a strategy of neoliberalisation to be developed at the local level, as a response to a contingent crisis, then to be rendered a template for solving similar impasses in other jurisdictions and finally to become part of the "one-size-fits-all" global policy repertoire. These causal connections, however, are not necessary. The reverse process, or an incomplete trajectory along this line, are equally conceivable —and indeed detected in the literature. Looking at the diffusion of neoliberal policies from the perspective of the variegated pathways to neoliberalisation allows to attenuate the dichotomy between a top-down and a bottom-up regulatory transformation, or between enforced and generated institutional change.

The heuristic utility of this conceptualisation resides in the importance placed on the circulatory system through which the neoliberal agenda 1. acquires mobility

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In the period 1975-76, New York City reached an unemployment rate of 11.9%, losing 99,000 jobs. No substantial increase in corporation revenues' tax was proposed, nor any specific emergency taxation on highest incomes implemented. The urban working class bore the entire cost of restructuring the public debt. As David Harvey has pointed out, during New York City financial crisis an «extremely important principle that became a global principle was first enacted. If there is a conflict between the well being of financial institutions and the well being of the population, the government will choose the well being of the financial institutions» (Harvey, 2007, p. 8).

cross scales and borders, 2. is able to produce validation for proposed reforms through the self-referential scrutiny of policy suggestions and 3. becomes adaptable to site-specific socio-economic conditions via self-reforming policy templates.

The problem of the circulation of neoliberal ideas and practices is one crucial element of the theoretical construction of neoliberalism on which I will further elaborate as the discussion progresses.

To summarise, the concept of variegation offers a nuanced if complex take on the process of institutional transformation connected to neoliberalism. The national institutional context provides the background for the path-dependent trajectories of neoliberalisation, which in turn entail the «*systemic* production of geoinstitutional differentiation» (Brenner *et al*., 2010b, p. 184). The approach supports the view that neoliberalism is a «historically and geographically differentiated, yet global (or at least translocal) phenomenon» (Bakker, 2010, p. 721).

To address the problem of reconciling the systemic unevenness of neoliberal institutions and their ubiquity, we shall now turn back to the historical path followed by advanced capitalist countries in overcoming the 1970s systemic crisis.

2.2 From Fordism to monetarism

The hypothesis that is guiding this brief historical investigation is that the 1970s crisis represented a watershed for capitalist economies, after which a reconfiguration of the accumulation regime had to follow.

This type of interpretation of the neoliberal turn is informed by a systemic view of the capitalist development, which emphasises the determinant role performed by the underlying processes and relations of production and conditions of reproduction of the system.

The capitalist mode of production is here treated as the relevant subject of the neoliberal transformation. The analysis is concerned with the post-War World II stabilisation of an accumulation regime among market economies, and the evolving contradictions that led to the 1980s shift. The approach is conditioned by the theoretical evolution of Marxist political economy, and the long-lasting debate on the succession of phases in the history of capitalism. This debate has been among the most contentious components of Marxist tradition, and it can be traced back to Marx's contemporaries and early successors: there is no room here for giving even a sketchy summary of its proceedings.

Among the approaches to capitalist periodisation, the regulation school exercises a lasting influence on the scholarly debate on neoliberalism. The theory sought to isolate the structural elements that characterised the US economy —and by similarity of the Western block— in aftermath of the second world war. The authors developing the approach, starting from the late 1970s, were confronted with a systemic crisis of the complex model of growth which emerged from the experiences of the Great Depression and the war.

The theoretical apparatus of regulation is well established, albeit often unrecognised, in the lexicon of the studies on neoliberalism. In particularly the key concepts of *regime of accumulation* and *mode of regulation* remain central to contemporary research agenda. The former identifies definite configuration of production and distribution that sustains the growth of a capitalist society over a prolonged time-span. In other words, the salient feature of a regime of accumulation is the possibility it realises to defer the outbreak of systemic crises.

In his milestone *A Theory of Capitalist Regulation*, Michel Aglietta described — under the label of Fordism— the accumulation regime established in US by the 1940s-50s as: «the principle of *an articulation between process of production and mode of consumption*, which constitutes the mass production that is the specific content of the universalization of wage-labour» (2015, p. 117). The mode of regulation, on the other hand, describes the set of rules for individual, collective and public action that grew from and reinforced the regime of accumulation.

Technological change, the regimentation of labour in the workplace, the proportionality between the increase of labour productivity and the increase of labour compensation fall under the first concept. On the other hand, the wage bargaining system, fiscal and the social policies and the welfare entitlements corresponded by the state are expressions of the mode of regulation.

The articulation of the accumulation regime and mode of regulation forms a systemic —if transitory— balance (*mode of development*), which is more pronounced in the leading sectors of economy but extends its logic to the entirety of production. The New Deal, aiming at producing enough effective demand to absorb past production and induce new investments, is an intensive accumulation regime —where the necessity of capitalist accumulation induced a substantive transformation of workers' living standards.

The corollary of this articulation of production and consumption is sustained employment and large industrial workers' recruitment, which in turn favours labour militancy and trade unions' affiliation. This cohesive labour solidarity was key to reinforce the wage gains across companies and sectors.

The resulting social structure has been described, with a useful visualisation, as a "hot-air balloon", where «the mass of income of wage-earners, largely situated around the median income […] enables the whole of the economy to rise, like the mass of hot air caught within the belly of the hot-air balloon, between the tight chimneys of the top and the bottom» of income distribution (Lipietz, 2001, p. 21).

The allocation of public resources to «the development of collective services» needed for «the development of a norm of social consumption» (Aglietta, 2015, p. 236), which would otherwise not be provided by the market, was a central feature of the Fordist compact. Expansive fiscal policy, with sustained government deficits for civil and military spending, were widely adopted in the period. The development of a social safety net, in the form of an extensive welfare system providing unemployment benefit, basic services, employment opportunities was a notable consequence of sustained growth hinged on sustained demand.

The monetary policy followed by the Fed in fulfilling its mandate of fostering maximum employment allowed the post-war welfare system to achieve its aims through deficit spending, while it did not directly translate into an increase of the stock of debt to GDP. These favourable terms for debt-financing induced the growth of both corporate and consumer debt. The latter played a major role in the structuring of Fordist accumulation regime around consumer durables. «Fordism created a norm of the working-class consumption […] governed by two commodities: the *standardized housing* […] and the *automobile*» (*Ibid*., p. 158-9).

Low interest car loans and mortgages increased the centrality of suburban lifestyle to the workers' consumption, constituting the backbone of the American Dream (Harvey, 2012).

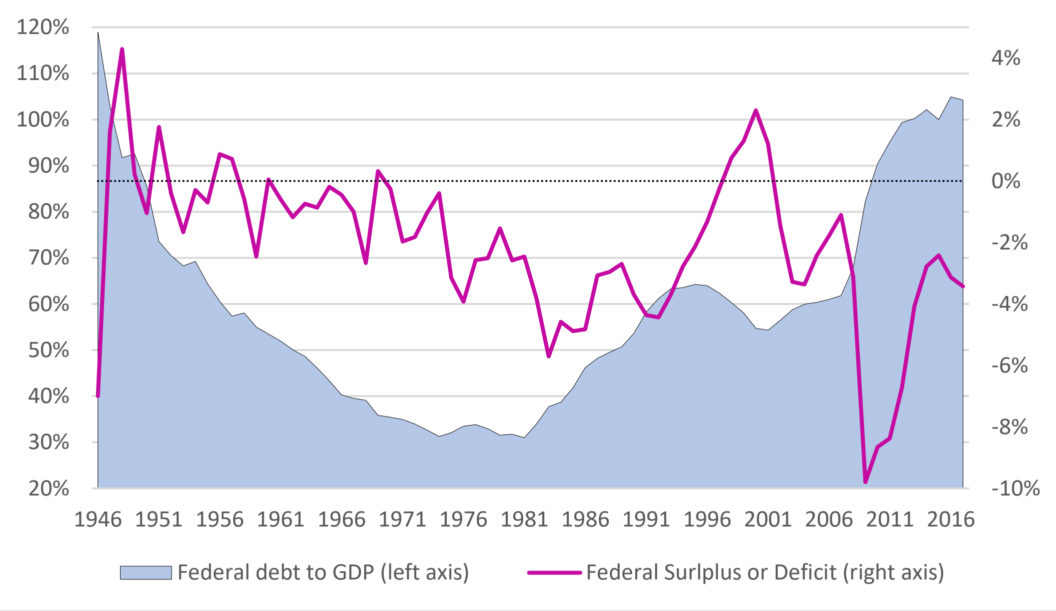

Figure 2.6. Government Debt to GDP and Budget Surplus (Deficit), US.

Data source: Federal Reserve Bank of St. Louis

The flow of new commodities (e.g. the white goods for urban households) required an organisation of home space, regularised power-supply, etc. unlikely to be found in the old inner-city rent-houses. The provision of newly built neighbourhoods became one of the most important drivers of growth, absorbing a great deal of both capital and labour. Finance was widely involved in the sector, not only on the demand-side (i.e. mortgages) but on the supply-side too, granting loans to the building developers. The growth of the suburbs, far from the inner city but still connected by highways (i.e. reachable throughout the second crucial good, the private car), induced a massive transformation of urbanisation under Fordism.

The empirically observable growing reliance of corporation on credit for undertaking their productive activities had a structural theoretical significance for the regulation approach.

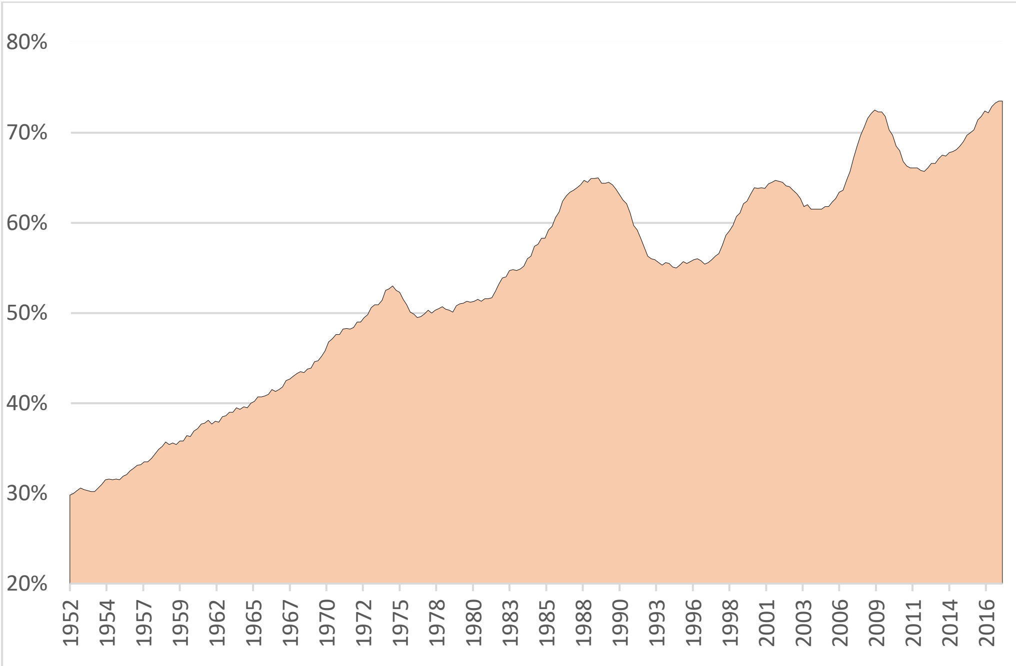

Figure 2.7. Non-financial Corporations Debt to GDP, US.

Data source: Bank of International Settlements

The regulationists tended to interpret, contrary to the mainstream economics, the rise in inflation of the 1970s as the expression of a general crisis of capital profitability, which under the intensive accumulation regime of Fordism was taking the form of a protracted increase of nominal prices mediated by the extension of credit.

The regulation approach maintains that the Fordist compact was not able to abolish the structural capitalism's characteristic of being a crisis-prone productive system[3].

[3] For regulation school, the tendencies toward unbalanced growth and crisis are counter-acted when two conditions are met (Lipietz, 1986): 1. the increase in the mass of means of production produced by the capital goods sector (Department I in Marxian terms) is proportional to the increased productivity brought about by the new means of production. This first condition represents a counter-force to the rise of the organic composition of capital —the ratio of means of production to total capital used in production— which Marx saw as the cause of the tendency to the rate of profit to fall.

The second condition is that 2. the increase of consumption of wage-earners is proportional to the increase of productivity in the sector producing means of consumption (Department II). While the increase of workers' consumption is stabilising the rate of exploitation (to the detriment of capital), the decreasing value of consumption commodities is lowering the real cost of labour power, while the workers' consumption ensures the effective demand needed for the reproduction of the system. In other words, both profit-squeeze and underconsumption crises are averted.

The counter-tendencies put in place by Fordism were able to sustain capital profitability and accumulation until the mid-sixties, when a downtrend of corporations' profit rate appeared (see *inter alia* Lipietz, 1986; Shaikh, 2011).

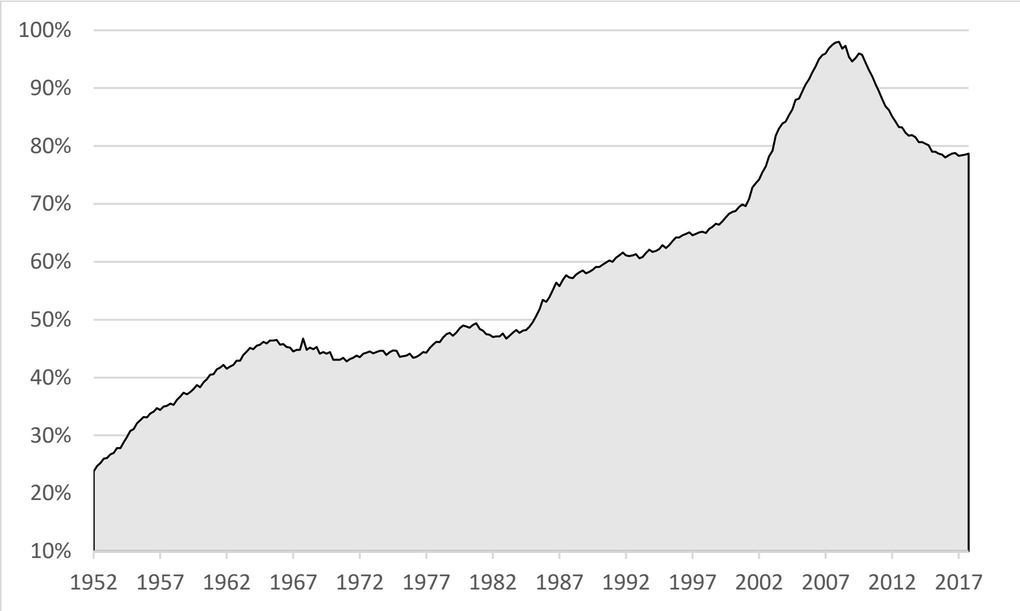

Figure 2.8. Household Debt to GDP, US.

Data source: Bank of International Settlements

The regulation school interpreted the downturn in profitability as the exhaustion of Fordist's capability of increase productivity at the same pace of the growth of per capita fixed capital —the limit to cheapening capital goods as they increasingly substitute labour. This interpretation was not the only, or even the prevalent, explanation of the profitability crisis in the Marxist camp. Alternative explanations encompass saturation of monopolistic markets, international competition, wage-induced profit squeeze, increasing costs due to exogenous shocks, or a combination of two or more of the former factors.

The resolution of the crisis through a restoration of profitability at the expenses of wages, attempted through firms' restructuring and layoffs, was meeting the resistance of organised labour. Moreover, this resolution was hampering the capability of the accumulation regime to reproduce itself, threatening the inner connection of norm of consumption and accumulation of capital.

On the other hand, the crisis of profitability was not evolving in a full-blown crash, but was appearing as accelerating inflation. The regulationist interpretation of inflationary pressure and rising unemployment, as noted above, was that the over-extension of credit diluted the disruptive crisis into a protracted stagnation accompanied by accelerating inflation. The exposition of the various formulation of regulationist takes on credit (money) and crisis is far too lengthy to be undertaken here (see Aglietta, 2015, pp. 332-351; Lipietz, 1985). They subscribed to an *endogenous* view on (credit) money creation, not unlikely Post-Keynesian economists, derived from reinterpretation of Marx's theory of money. Endogenous credit money creation, in the context of modern monetary system in which inconvertible central bank money replaces gold at the highest point of money hierarchy, implies banks' capability of creating "at will"[4] new purchasing power — while central banks can try to intervene on the interest rate to constrain it. Banks' decision to create credit money is determined by expected profitability of the financed investment (or the stability of income, in case of consumer credit). When the reduction of profitability set in, the extension of credit prevented it to directly manifest itself as the inability of selling firms' produce, and thus as a glut in the exchange of commodities and a crash (Lipietz, 1982). Rather, credit allowed for nominal profit and nominal income to rise and sustain production, at the expenses of accelerating inflation and even more extended credit.

The role of credit in prolonging the reproduction of the regime when its profitability was already in crisis is an original theoretical contribution of the regulation approach, which was taken up by some of the school's members and developed in an account of finance-led capitalism (see for example Guttman, 1994).

The structural crisis of the 1970s, seen from the point of view of the regulation approach, can be summarised as «the inability to resume profitability and to allow

[4] Few more specifications on the point are needed. First, endogenous money theory reverses the causality between deposits and loans. Banks (and more generally credit creating institutions) are not generating loans out of their deposits. Since deposits are withdrawable on demand, banks cannot simply transfer the liquidity in their deposits to borrowers. They rather create new liquidity, a new asset corresponding to the new liability of the borrower. Secondly, the strong expression "at will" wants to represent here the undirect and uncertain control that central banks have on credit creation —which they can influence trough reserve requirements, open market operations and the discount rate. Banks, as individual capitalist enterprises, have to maintain a viable ratio of reserves to deposits to ensure the safety of the latter, and of deposits to loans to ensure liquidity.

the recovery of accumulation, the destruction of the social forms supporting accumulation, the dissolution of economic determinism and an increase in social and political conflicts at both the national and the international level» (Boyer and Saillard, 2002, p. 43).

The explanations of the profitability crisis from the Marxist point of view cannot be pursued here any longer, due to vastity of the literature devoted to the topic. We have to turn now to the neoliberal interpretation of the crisis of stagnation and inflation.

The two mutually reinforcing phenomena reached a virulent level in the 1970s: inflation peaked at double digits at the beginning and the end of the period, and unemployment exceeded the rate experienced since the recovery from the Depression. The economy slowed and entered a recession in 1974-75. The economic theory of the time, influenced by the neoclassical/Keynesian synthesis[5] developed after the war, seemed particularly ill-equipped for explaining the rise of stagflation.

The consensus view explained inflation as the result of demand in excess of the rate of output growth, a situation characterised by full employment. Only at or close to full employment, therefore, extra demand would translate in the accelerating growth of prices. The opposite situation of rising unemployment was associated with decreasing, or at least not accelerating, prices.

The weakness of the normal theory in the face of a critical empirical phenomenon paved the way to a paradigmatic shift in economics. The competitive monetarist explanation of stagflation swiftly rose to prominence in economic theory and policy suggestions. The monetarist approach, associated with Milton Friedman and other Chicago economists, takes money supply as the sole determinant of inflationary dynamics.

[5] The formula neoclassical/Keynesian synthesis will certainly seem a pleonasm to the reader with introductory knowledge of the history of economic thought. The post-war consensus goes, following Paul Samuelson, by the simpler name of neoclassical synthesis (for a succinct presentation, see *inter alia* Blanchard, 1991). However, the normalisation of Keynesian approach into the neoclassical framework was not an untroubled enterprise, and the subsequent revision of the consensus took care of downsizing the Keynesian contributions to macro-economics, rebuilding the latter on purified neoclassical microeconomic foundations. For these reasons, I prefer to utilize the more explicit formula neoclassical/Keynesian synthesis.

Friedman's starting point is an adjusted version of the pre-Keynesian neoclassical quantity theory of money (QTM). According to QMT the relationship between the quantity of money in circulation and real (i.e. output growth, employment) economic factors is null in the long run. Money is neutral in respect of real variables, and only determines nominal, i.e. price, quantities.

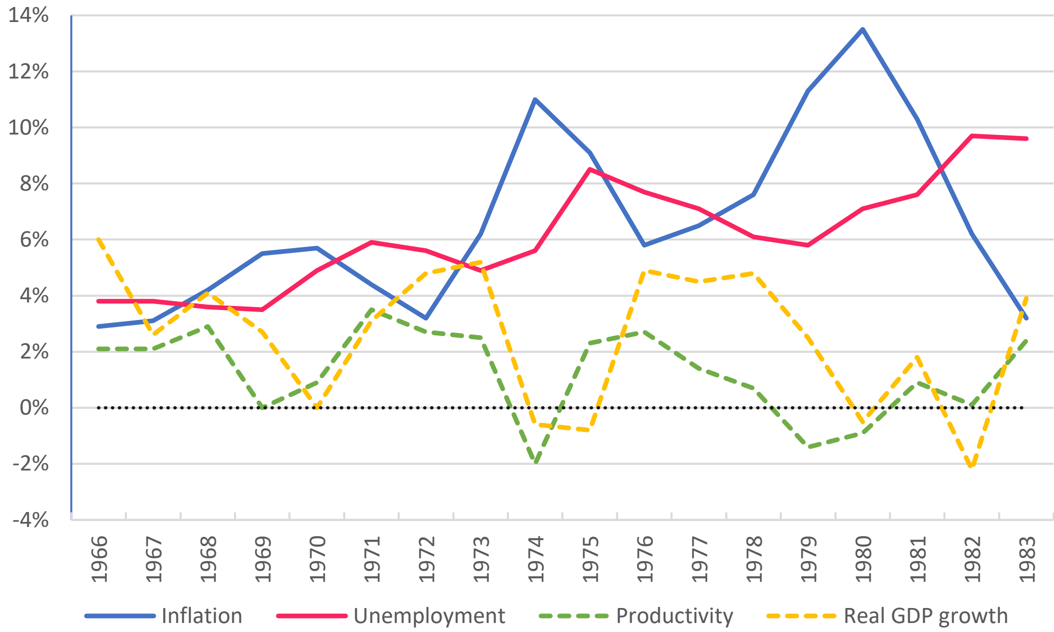

Figure 2.9. Stagflation Crisis in the US.

Data source: Guttman, 1994.

The assumptions of the theory are: 1. economy is in equilibrium at maximum output and full employment, and thus aggregate supply is inelastic to aggregate demand; 2. the demand for money, the part of total nominal income that the private sector wishes to hold in the form of money in its balance sheets, is constant —because people have no incentives in holding money aside from using it as a means of payment; and 3. the supply of money is exogenously determined by monetary authorities.

An increase in the money supply by expansive monetary policies will increase demand for goods and services, which will translate into an increase in prices because it cannot be absorbed either by an increase of production or by an increase in the money held in the balance sheets. The rise in price will lower the real wage, inducing excess demand for labour at previous nominal prices. Employers bidding for labour will then cause the nominal wage to rise to match the increase in prices. Thus, prices and nominal wage grow while output and employment remain constant, or in other words expansionary monetary policies lead to inflation (Snowdon and Vane, 2005; pp. 50-4).

QTM was the frame of reference and one polemical target of Keynes' elaboration. The assumption of equilibrium output at full employment as the starting condition is substituted with underemployment, so that an increase in the supply of money can lead to increase in output until full employment is reached. Moreover, Keynes introduced a speculative reason for holding money, inversely related to the incentive to hold bonds deriving from expected level of interest and the subsequent possibility of realising capital gains. In this view, an expansion of money supply may induce a change in all the variables originally held constant by QTM, seriously challenging the notion of money neutrality. Moreover, as observed during the Great Depression, monetary stimuli may not induce an expansionary effect on investment and consumption, and direct government spending is needed to resuscitate aggregate demand.

The work of Milton Freidman sought to re-establish the direct connection of stock of money in circulation and price level, and the neutrality of money in respect of real economic factors. First, Friedman put forward a model of money demand which rejected the Keynesian result of inverse correlation between the latter and interest rate. The demand for money, in Friedman view, is a stable function of a restricted number of variables and do not allows for wide fluctuation in response to short-term changes in the interest rate as implied by Keynes' liquidity preference. The increase or decrease in the money stock is thus causally related to the supply, and not the demand, for money. As for the neo-classical QTM assumption, money supply is exogenously determined by monetary authorities. The change in the money stock explains systematic increase and decrease of nominal income and thus nominal prices, i.e. it causes inflation and deflation.

The argument sketched above is well known, as it is the upheaval it caused in the economic profession in the 1960s and early 1970s. The kernel of neoclassical/Keynesian synthesis was questioned, namely the effectiveness of monetary and fiscal policies to stimulate demand and thus correct the tendencies towards under-investment and unemployment. The Keynesian camp fought back, but Friedman's subsequent contribution to the revision the unemployment-inflation trade-off model (Phillips curve) proved to be the definitive blow to the post-war consensus.

Freidman postulates that there must be a market-clearing level of unemployment different from full employment. At this rate «real wage rates are tending on the average to rise at a "normal" secular rate, i.e., at a rate that can be indefinitely maintained so long as capital formation, technological improvements, etc., remain on their long-run trends. A lower level of unemployment is an indication that there is an excess demand for labor that will produce upward pressure on real wage rates. A higher level of unemployment is an indication that there is an excess supply of labor that will produce downward pressure on real wage rates» (Friedman, 1968, p. 8).

The level of the natural rate at which labour market will tend to long-term equilibrium is determined by exogenous factors, e.g. policy-induced imperfections (e.g. legal minimal wages, strong unions). If economy is at the natural rate of unemployment, there cannot be any trade-off between inflation and employment, because (real) wage growth is determined by real economic factors only.

The situation changes in the presence of a government wishing to reduce the rate of unemployment below the natural one through stimuli to aggregate demand —which are here reducible to an expansionary monetary policy. Freidman's critique of the then standard interpretation of the Phillips curve relies on the concept of expected price rises as a determinant of nominal wage increase. Money wage should be seen as a function of the level of unemployment plus expected inflation[6].

In the argument, economy is in equilibrium at the natural rate of unemployment (U_n), with the relative stable nominal wage level (A) as in figure 2.10. The government is then seeking to reduce the rate of unemployment below the natural rate by stimulating to aggregate demand. The increase of demand for goods will apply an upward pressure on prices and nominal wages. Coming from a previous

[6] The concept of expectations embedded in the theory will become the foundational notion of Robert Lucas' body of works on rational expectation and of the following new classical synthesis, which sought to expunge the Keynesian influence from macro-economic by deriving the latter from microeconomic premises.

period of zero inflation, workers will mistakenly take the inflationary increase of wages as a real increase and thus they will increasingly move out of "leisure" or agree to work longer hours —they will suffer a temporary money illusion. The increased supply of labour is matched by an increase demand by firms, which «misperceive a rise in their nominal product price as being a partial rise in their relative price due to a local increase in demand, so they raise output and employment to some degree» (Shaikh, 2016, p. 574). Unemployment decreases (U_1), and nominal wage increases ($\dot{W}_{1}$), inducing a new equilibrium (B).

As workers adaptively react to the higher level of inflation, the demand of nominal wage will start incorporating an expectation of future inflation (p_e), so to make future real wages matching the experienced price rise.

Since nominal wages are now rising faster than inflation ($\dot{W}_1 + p_e$), firms realise that their costs will outstrip price gains, and lay off workers until unemployment rate returns to the natural rate (C), with nominal wages restored at the inflation-aligned level. In sum, intervening on aggregate demand will bring a short-run reduction of unemployment and an increase in nominal wages. As soon as the workers realise that the real wage went down compared to prices, and try to include inflation in their wage bargain, unemployment reverts to the previous natural level.

In the long-run, supplying more money to the economy results in higher prices and nominal wages, and unchanged unemployment and output (Shaikh, 2016, pp. 569-76; Snowdon and Vane, 2005; pp. 175-180). Money is neutral in respect to real economic factors, and the validity of neoclassical QTM orthodoxy is restored.

If a government seeks to stabilise unemployment below the natural rate, and thus keeps increasing the money supply, the process of adjustment repeats itself (*n*) at higher nominal wage levels ($\dot{W}_n$), leading to hyperinflation. Any attempt to fine-tune the economy through monetary policy will lead to destabilisation.

The expectations-augmented Phillips curve, developed in the 1960s, seemed to find confirmation in the stagflation crisis of the 1970s. The rise in unemployment of the decade was progressively accepted as the result of the adjustment process towards the non-accelerating inflation rate of unemployment (NAIRU), a technical —and more palatable— variation of Freidman's natural rate. The account did not go unchallenged, starting from the problems connected to quantify the actual NAIRU (see *inter alia* Tobin, 1972; Galbraith, 1997).

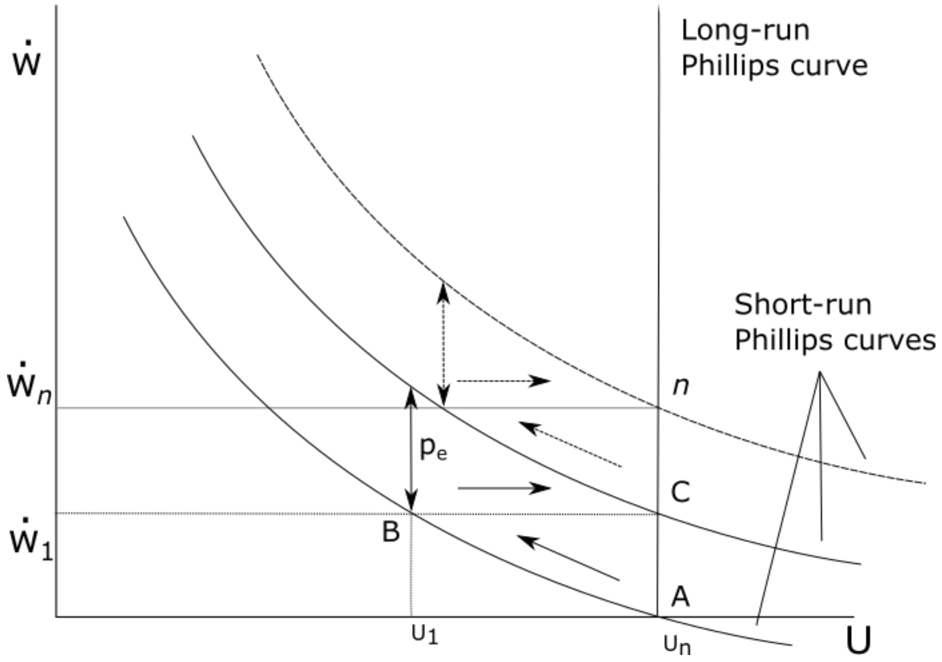

Figure 2.10. Expectations-augmented Phillips curve.

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The policy implications of Freidman's conceptualisation of the relation between unemployment and inflation are pervasive.

The demand-side approach, and chiefly expansive monetary policy —to which expansive fiscal policies will eventually lead— were proven ineffective if not harmful. Fiscal authorities should work in concert with central banks to keep the monetary supply growing at a low and stable rate in normal times.

The NAIRU historical level can itself be lowered by eliminating some of the frictions that induce labour market imperfections, i.e. by crafting supply-side measures such as: «(i) the incentive to work, for example through reductions in marginal income tax rates and reductions in unemployment and social security benefits; (ii) the flexibility of wages and working practices, for example by curtailing trade union power; (iii) the occupational and geographical mobility of labour, for example in the former case through greater provision of government retraining schemes; and (iv) the efficiency of markets for goods and services, for example by privatization» (Snowdon and Vane, 2005; p.187).

The theory has much deeper theoretical and political implications: the very same fact of rehabilitating the conception of the capitalism system as operating at a full employment —minus the unavoidable frictions— if the market is not disrupted is a remarkable intellectual achievement. Freidman was perhaps helped by the vanishing memory of the Great Depression in reaching his goal.

Friedman and co-author Anna Schwartz contributed to the revision of the received knowledge on the 1929 crisis with their *A monetary History of the United States* (1963), what is considered their *magnum opus*. The book historically expounds the connection between the growth or decline of the money stock and the cyclical fluctuations of US economy, so to test the consistency of the independent causal power of money supply to explain large inflationary or deflationary events. Friedman and Schwartz famously argued that the Great Depression was the result of the inability of the Federal Reserve (Fed) to counter the deflation spiral initiated by the sharp reduction of the money stock after the panic in the banking system triggered by the collapse of the stock market. The latter itself was caused by the central bank's decision to tighten the monetary policy for curbing the outflow of gold towards Europe (Chernomas and Hudson, 2017). Had the Fed understood the impact of its monetary decisions on nominal prices trajectory, the Great Depression could have been just a cyclical downturn of the economy.

The real factors that allowed the Great Depression to take place, such as the financial fragility of the banking sector, or the speculative valuation of stocks, were removed from the picture. As it was Keynes' scepticism regarding the efficaciousness of a strategy relying solely on monetary policy for revitalising investments after the recession set in.

The study led to a rather consistent policy prescription for the Fed: the most efficient type of monetary policy a central bank can pursue in normal time is targeting a fix growth of the money stock, so to stabilise price growth. In the event of an accelerating up- or downswing of the money supply, the Fed should counter-balance the movement with its operation in the market for funds. Ben Bernanke exposed the deep reach of Friedman's revisionist history of the Great Depression: «as an official representative of the Federal Reserve […] I would like to say to Milton and Anna: regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again» (2002). The remark from the former chairman of the Fed is quite sincere: he, presiding the central bank during the 2008 crisis, extensively applied the advice of providing reserves to the badly damaged financial sector. But, as for Friedman, there were not more fundamental issues at play which deserved attention before the crisis, nor structural actions were taken to correct the underlying causes of the financial collapse.

The influence of monetarism on both economic theory and the policy orientation is undeniable. The efficacy of Friedman's argumentations, and the ability to challenging the neoclassical/Keynesian synthesis from within, induced an absorption of the monetarist precepts into mainstream economics, not unlikely to what happened to Keynes' own work. The timely appearance of monetarism as a reserve knowledge for economics, when real functioning of the capitalist system was shaking the epistemological paradigm of the discipline, is undoubtedly a major cause of the approach's success. On the policy side of the equation, the narrow prescriptions for central banking proposed by Friedman lost the favour of policymakers soon after their full adoption. On a broader and more fundamental level, however, the precept of fine-tuning governmental policies *to free-market* is the lasting legacy of the new orthodoxy.

2.3 American hegemony and financial capital

The second influence of Marxist political economy on researches on neoliberalism the foresight on capital periodisation offered by critical international political economy (IPE). The accent is here as much on the historical, uncertain, and often contradictory path of capitalist development as it was on the structural conditions of capitalist growth for the regulation school.

Influenced by the world-system and dependency theory outcomes of the 1970s, IPE questions the position of US as world hegemon, and the complex relationships with its peer states. The approach highlights the contribution of the evolution of international configuration in spurring the neoliberal era, with the increasingly deteriorating hegemony of US on other market economies throughout the 1960s, the corrective policies sought after by the Fed and US Treasury and the subsequent destabilisation of the international order in the 1970s.

This research agenda is deeply influenced by Giovanni Arrighi's large historical picture of the moving centre of capitalism world system in his *The Long Twentieth Century*, and in particular by the connection between hegemonic shifts and the emergence of strong financial traits in a stage of capitalist development. In Arrighi's own words: «each and every financial expansion is simultaneously the "autumn" of a capitalist development of world-historical significance that has reached its limits in one place and the "spring" of a development of even greater significance that is beginning in another place» (2010, p. 374).

Accordingly, this strand of IPE debate enquiring the decline of US hegemony on the world stage tend to look at the nodal points of the transformation of the post-war international economic regime connected to the deregulation and diffusion of American financial capital.

The new monetary policy implemented by the Fed in the late 1970s under Paul Volcker is surely one of these systemic turnarounds, rendered possible by the prior demise of Bretton Woods systems, after Nixon's decision of suspending the convertibility of dollar into gold in 1971 and the abandonment of the fix exchange rate system few years later.

Under the post-war international monetary regime, dollar functioned as the reserve currency of the (western-aligned) world, with rigid control over national money by central banks in order to ensure the compliance with fixed exchange rates. Private involvement in international capital trading, ownership of foreign currencies or transnational lending activities was sanctioned by regulation. International banking and investment in foreign capital markets were restricted for the first decades of the Bretton Woods era. However, starting from the late 1950s, a wave of financial innovations allowed for the re-emergence of international finance, that eventually led to the abandoning of central elements of the Bretton Wood regime.

The architecture of the monetary regime accommodated US international trading position for the first decades after WWII. America was a net exporter of consumption and capital goods to weakened European economies. The trading partners were compelled to keep the value of their currency in check, abiding by the fixed exchange rate. Without competitive devaluation of their currencies in sight and with a depleted industrial basis, Europe was absorbing large quotas of US exports and was in perennial demand of dollars for paying them up.

The situation changed by the beginning of the 1960s. A combination of factors — the strengthening of industrial production in the G7 countries, the growth of US multinationals operating in foreign markets, the return to mutual convertibility of Western European currencies and the yen, the outflow of dollars through the financing of the Vietnam war— converted the dollar shortage in a dollar surplus in foreign accounts. This excess stock of dollars held abroad facilitated the creation of a new market for money and loans based in Europe.

The formation of the Eurodollar market is among the most significant transformation occurred in the Bretton Woods regime (de Cecco, 1976), and the sign of the revitalisation of international finance. First, it allowed for short-term interbank operations denominated in dollars, which undermined the role of central banks as a conveyor belt between international reserves and national currencies. The entire regulative framework of Bretton Woods was shaken, at both the international and national level. Second, it set the stage for the deployment of new financial instruments, largely benefitting from the unregulated nature of the new market (de Cecco, 1987).

As efficaciously summarised by Battilossi, the participation of US banks to the new markets through their foreign branches «enabled parent banks to bypass domestic capital controls (by granting loans to finance American multinationals' foreign investments) […] partially offset[ting] domestic monetary policy (by channelling funds raised abroad back home, as during the credit crunches of 1966 and 1969) […]. In a similar fashion, continental banks – especially German and Italian – were induced to establish branches and subsidiaries in London or Luxembourg to evade regulation and controls imposed by their monetary authorities» and «to defend their corporate customer bases from American competition» (2000, p. 170)[7].

[7] In the attempt of countering the rise of Eurodollars and the siphoning of dollars from the domestic market, by 1963 tighter capital controls were approved by the US government, mimicked by major trading partners. The integration of European and American financial system would nonetheless prove resilient to new regulative effort. As note by Konings, «restrictive policies within the New

The banking practices in the Eurodollar markets were strongly influenced by the new techniques adopted by US banking system in response to domestic economic trends and regulation. It is thus important to place financial innovation in the context of the institutional arrangement of the time.

In the post-war period, US banking legislation was rather tight, the memory of the chain-failures in the banking sector during the 1929 crash being still very clear. The New Deal era legislation isolated the lending activities from participation in the security markets by enforcing the separation between commercial and investment banking sectors with the *Glass-Steagall Act* —the 1933 *Banking Act*. The legislation aimed at avoiding commercial banks' excessive financial exposure by determining, among the other provisions, a maximum level of interest they could offer on deposits —established by Regulation Q. The latter feature was designed to limit the squeezing of bank margins (interest received on loans minus interest given on deposits) by sectoral competition, and thus reduce the risk of insolvency. Federal insurance on deposits was established with the same purpose.

Despite this tight regulation, the financial sector structurally evolved in the post-war boom. The interest rate started moving upward in the 1950s, with the 3-month US Treasury bill interest up from the zero level of the 1930s and 1940s. By the mid-1950s, the interest paid by short-term Treasury bills and corporate bonds caught up with the regulate interest on deposits, which was subsequently increased.

The relationship between interest on Treasury bills (relatively determining the interest paid on borrowing) and interest on deposits became a regulative lever for fine-tuning the speed of credit creation: when the former was higher than the latter, banks contracted lending, thus inducing a credit crunch. This dynamic, under the control of policymakers on both side of the interest spread, represented a "stop-go" policy tool for slowing down inflationary growth (Krippner, 2011). With inflation peaking in the 1970s, and nominal interest rates adjusting to inflationary pressure, this balancing mechanism became largely inefficacious.

Deal framework merely fuelled disintermediation tendencies and financial innovation, while credit creation and inflation continued» (2008, p. 62-3).

Starting from the mid-1960s, market rates far exceeded the Regulation Q rates. This accelerated the transfer of funds from the more regulate saving accounts in banking sector to new financial instruments (such as the money market mutual funds, paying interest on the deposits managed outside Regulation Q) (Gilbert, 1986). Competing for attracting loanable funds, banks introduced innovative instruments which circumvented the mandatory limits to interest on deposit —most notably issuing certificates of deposit (CDs), fix-term time deposits tradable on the secondary market. The CDs market represented a vital source of liquidity for banks, predicated upon the management of liabilities as securities. It constitutes, in other words, one crucial step towards the securitisation of liabilities, a breakthrough in financial activities which consequences are not lost in the face of 2008 crisis.

The emerging financial environment was thus characterised by both new investment instruments and new actors, such as the mutual funds and, starting from the late 1970s, actively managed pension funds engaging in maximising individual investment returns under defined contribution savings plans —in US the 401(k), a crucial financial innovation in itself.

The outflow of dollars from US towards foreign sovereign accounts and to the partially reconstituted international financial market[8] undermined the status of dollar as international currency. The outstanding claims in dollar largely exceeded US gold reserves. The convertibility of dollars could be shattered if the holders of dollars would have lost confidence in the currency’s stability.

The perception that the dollar was overvaulted in relation to its fixed change to gold, and thus the expectation of its devaluation, drove up the conversion of dollar holdings into gold —as the French government increasing conversion of their dollar reserves into gold since 1965 signalled. In 1971 the suspension of dollar convertibility to gold was announced: it has never been revoked since.

[8] The complete liberalisation of capital market will come later: in the early 1980s for the US and in the mid-1980s for most of the Western European countries (Helleiner, 1995).

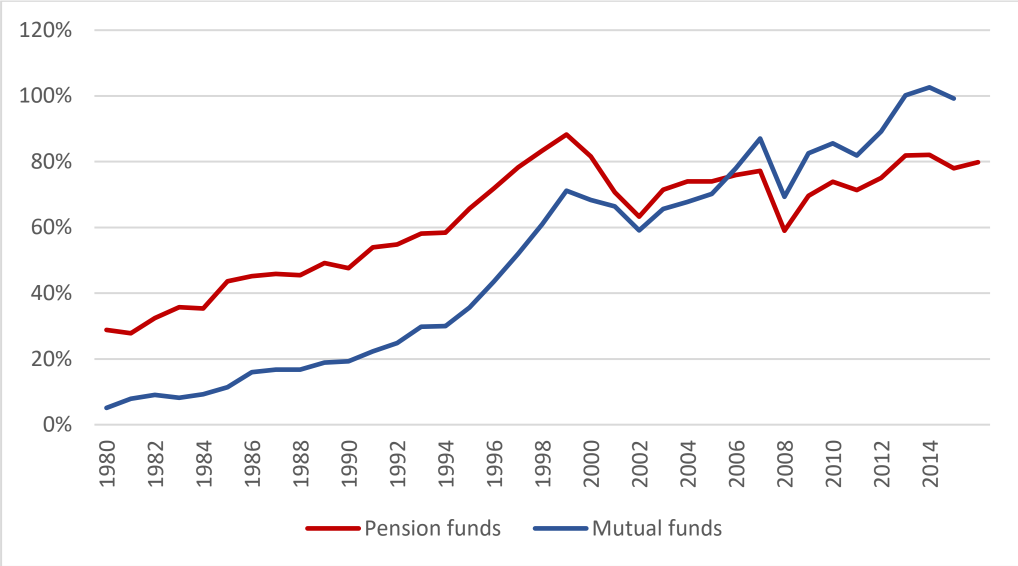

Figure 2.11. Pension and Mutual funds asset to GDP, US.

Data source: World Bank, Mutual Fund Assets to GDP for United States and OECD, Pension funds' assets

The adjustment to the new reality of floating exchange rates came in the midst of political, economic and monetary turmoil. Rising inflation in both US and its allies was compounded by the two oil shocks, in 1973 and 1979, and was met by the worrisome raise of unemployment —the stagflation crisis discussed above.
As the inflationary pressure continued unabated, the risk of inflation spiralling out of control started to stalk policymakers. A deep change in monetary policy was perceived as the only solution to inflation. The Fed, led by chairman Paul Volcker, set the course to end easy credit and induce monetary discipline on US economy.
The Fed publicly announced the change of policy in 1979, in what will come to be known as the "Volcker's shock".
The central bank reviewed the practice of targeting short term interest rate through the twin levers of operating indirectly on federal fund rate[9], the overnight rate of interbank loans, and directly setting the discount rate —the rate banks pay for borrowing funds from the Fed. The new policy target of Fed, in adherence with the monetarist theory, was the aggregate money supply. In pursuing a non-inflationary target of growth for the money supply, the Fed was committing itself to not increase

[9] The Fed can influence this rate by injecting or withdrawing reserves from the member banks through the buying and selling of Treasury bills, the so-called open market operations.

the reserves of member banks, by buying government securities in the banks' balance, *vis-à-vis* an increasing demand for credit. For meeting their needs and expanding credit, the banks would have to bid a higher price of capital in the interbank market. The move was signalling that the central bank was ready to let the interest rate increase to recession-inducing levels, if necessary.

The federal fund rate peaked at 19% in January 1981 (US, 1982). Despite the real and perceived risk of causing a recession, chairman Volcker and the top executives at the central bank seemed firmly confident in their policy strategy: making credit creation more expensive and signalling that "inflationary expectations" were misplaced. The influence exerted by the monetarist theory on this policy reasoning is unmistakable.

The increase in interests in 1979 was indeed followed by a deep recession. Nonetheless, Ronald Reagan elected President in 1981, supported Volcker's monetary policy. The new administration had confidence in its program for rescuing US economy, predicated on supply-side economics premises.

According to the program, a large corporate and income tax cut was needed to revitalise investments and give a sizeable incentive to work. This would work as a countervailing force to the pro-cyclicity of the monetary policy, so to achieve a smooth transition to non-inflationary growth. Proponents of the approach in the administration —most notably Arthur Laffer— had a more optimistic stance than monetarists, represented by Friedman himself on the *President's Economic Policy Advisory Board*, on the time needed to curb inflation.

Both sides agreed on the necessity of reducing budget expenditures if the tax cuts were to be consistent with the tightening of the money supply and thus for the fiscal measures to be self-financing.

Marginal income tax would be reduced by 23%, with the top bracket passing from 70% to 50% and the lowest from 14% to 11%; taxation on capital gains would be reduced from 28% to 20%; tax deductions on assets depreciation were to be sharply increased; incentives to individual retirement schemes were to be set in place.

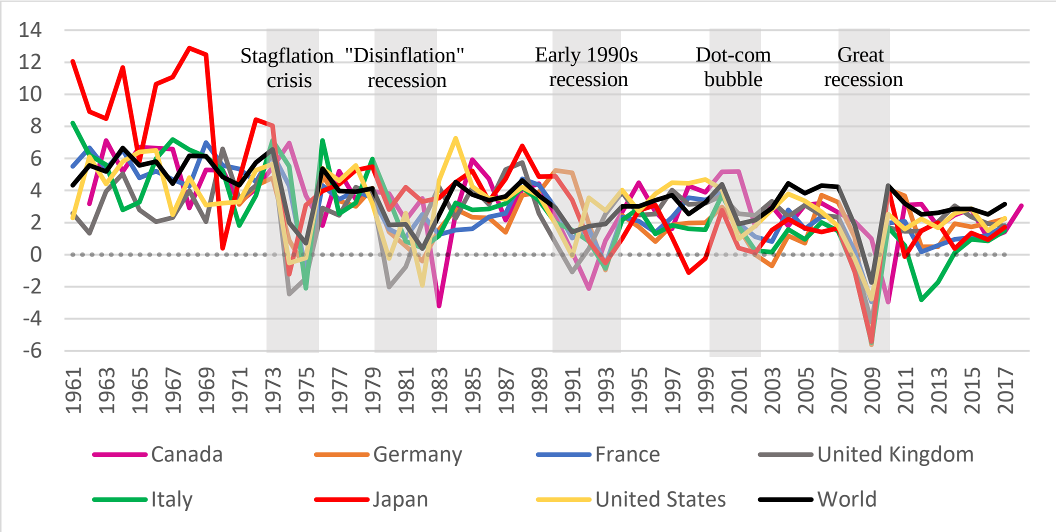

Figure 2.12. GDP growth rate, G7 countries and world.

Data source: World Bank

The *Economic Recovery Tax Act* of 1981 represented the single highest tax cut in US history. The subsequent revenue losses for the Treasury were substantive[10]. The administration sought to balance the missing tax revenues with an extensive programme of cuts to non-military expenditures. The administration proposed a 17% cut of the budget over the period 1982-85, reduced by Congress to 8.8%. The largest cuts concerned employment and training programs (-38.5%), social services programs (-23.5%), student loans aid schemes (-39%), child nutrition programme (-28.5%) (Hibbs, 1987, p. 313). Low-income household assistance plans, both in-kind (e.g. food stamps) and cash transfer based (e.g. unemployment benefits) received cuts, while the number of beneficiaries was restricted by a revision of mean-tested eligibility requirements.

To summarise, the combined effect of Reagan's fiscal policies was a marked redistributive effect towards the upper brackets of income distribution. This came in the midst the worst recession hitting US since the Great Depression. As the crisis unfolded, the process of industrial restructuring proceeded at a faster pace. US

[10] The generous tax bill was to be partially emended the following year, due to the ballooning deficit projections. The Tax Equity and Fiscal Responsibility Act of 1982 reduced investment tax credit and repealed the increase of depreciation deductions. The act won the first Reagan's presidency the paradoxical award of having implemented what are said to be the largest tax cut and the largest tax increase in US history.

unemployment rate surpassed the highest level since the 1930s of 10% between 1982 and 1983. Unemployment remained well above the 1950s and 1960s average for the whole decade (see figure 2.14).

The increased unemployment rate, and the shrinking social benefit, applied a downward pressure on wages, so that the crisis inaugurated the long trend of wages stagnation vis-à-vis productivity (see figure 2.4). Unionisation in the US entered its declining phase —the union coverage rate dropped from 24.1% to 16.4% of the working force in the period 1979-1989 (Hirsch and Macpherson, 2003), and lowered ever since. The basis for rebalancing wage and profit were laid down.

The recession lasted three years, by 1984 US economy recovered its pre-crisis growth level. The temporary downturn of US and global economy was consciously chosen by the central bank and the treasury as the lesser evil in the fight against inflation. The strategy did bear its fruits: accelerating inflation was brought under control and did not resurfaced until these days. However, the severity of the recession, and the extreme government deficit brought about by Reagan’s decision to sharply increase military expenditures, induced the Fed to revise upward the money targets.

Despite the success of the monetarist turn at Fed, the growth rate of the monetary supply proved an unreliable indicator of inflation. The growth of the money stock, in all the three definitions of the latter, increased amidst a sustained slowdown of nominal prices growth (Goodfriend and King, 2005). The measure of money supply was revised in 1982 and by 1987 Fed substantially reverted to explicitly targeting the interest rate. The hasty discontinuation of the money supply can be a sign of the strategic endorsement of monetarism by officials at Fed. Setting the money supply at the centre of policy decisions, rather than the market interest rate, was offering the Fed and the administrations an escape route from taking responsibility for the recession.

The new monetary target could be framed as a reduction of Fed’s intervention in the financial market and the resulting hike of the interest rate as a legitimate outcome of market forces. The brief season of vocal monetarism at the Fed can be interpreted as an instance of depoliticisation of monetary policy (see *inter alia* Newstadt, 2008).

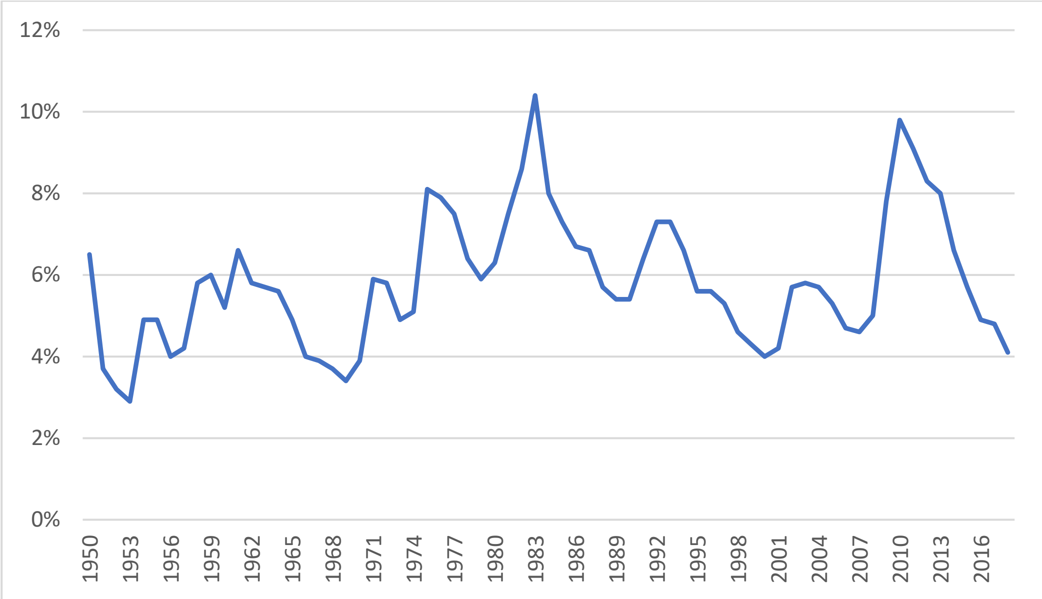

Figure 2.13. US unemployment rate, yearly (January).

Data source: Bureau of Labor Statistics

However, as Benjamin Friedman (1988) correctly emphasised, the causal connection which survived the "Volcker's shock" unscathed was the relationship between inflation and unemployment. As predicted by the standard accounts of the Phillips curve, containing nominal price caused a dramatic rise in unemployment.
The empirical decoupling of money stock growth from inflationary tendencies was evident in the sustained creation of credit during and after the shock. Business and household sectors' recourse to debt increased during the recovery, and the rate of credit creation reached a higher peak than the previous decade (see figure 2.16).
As noted by the IMF, «credit growth would have been consistent with much higher inflation» (1993, p.38). I will come to the explanation of this apparent contradiction, recurring to the theory of financialisation of US economy, in a moment. It is firstly worth noting that firms' increased financial commitments was matched by the issuance of short-term credit instruments (e.g. commercial papers) to the Eurodollars market. Bank loans —originated both domestically and in the Euromarket— declined, while major operators in the banking sector increasingly functioned as underwriters and distributors of marketable securities, often pooled together for credit-enhancing purposes.

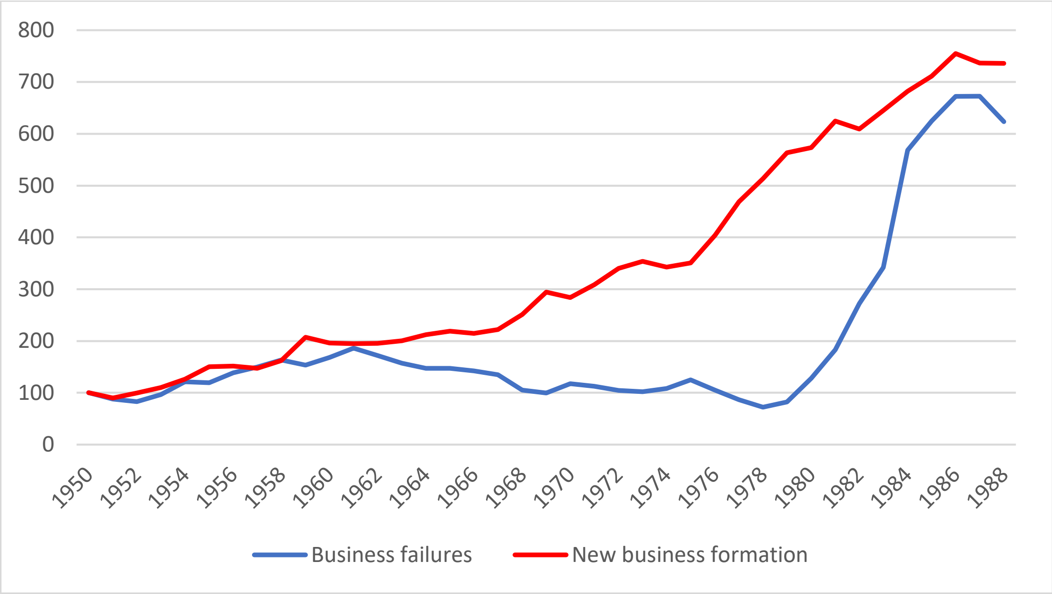

Figure 2.14. New business formation and business failures in US (1950=100).

Data source: Economic Report of the President

The financial innovation of the 1960s and 1970s turned into a process of large-scale securitisation —with the subsequent growth of derivative instruments for risk-management.

The role of dollars held overseas in providing liquidity to the US domestic market was substantially incentivised by Fed's monetary policy. The sharp increase of interest rates made the deployment of interest-bearing capital to US extremely attractive to investors. Dollar value increased sharply against the currencies of the main industrialised countries during the first half of the 1980s, as a result of the desire to hold dollars to invest in the US assets market. This in turn came to the further the detriment of US manufacturing exports.

The ballooning US government's deficit led the way to the financial inflow. The prospect of high return from holding US debt instruments, both public and private, draw dollars into the US financial market.

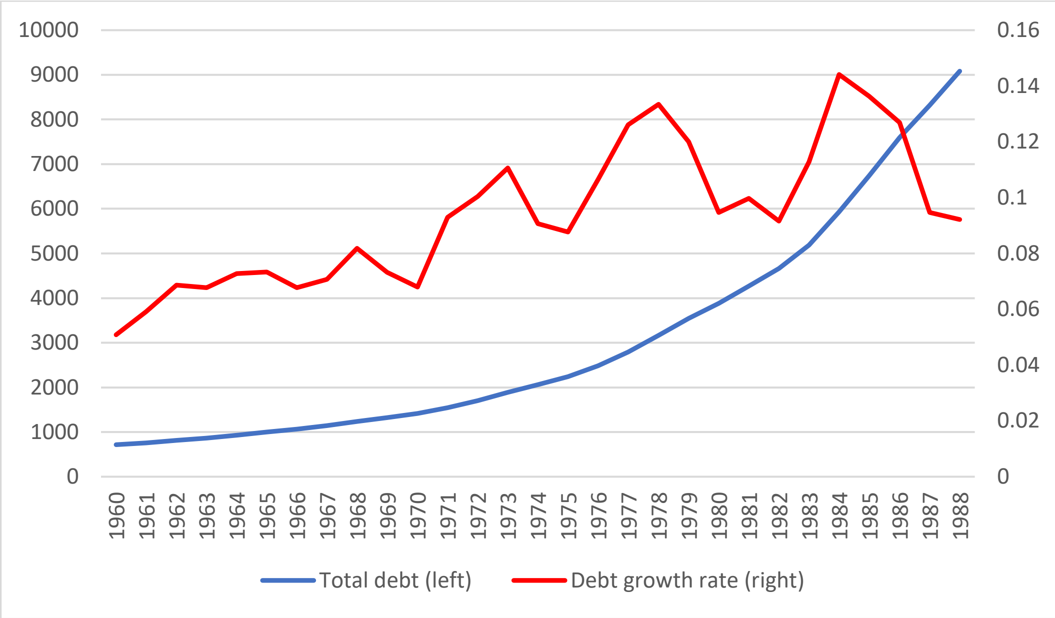

Figure 2.15. Total debt (billion dollars) and debt growth rate US nonfinancial sector.

Data source: Economic Report of the President

The substantial financial integration developed with the Euromarkets allowed for this transfer, that was further facilitated by the removal of the last capital controls in the main G7 countries. On the other hand, funds were pulled off the developing countries, which benefitted from credit expansion in the 1970s. The 1982 debt crisis in Mexico inaugurated a season of emerging markets' financial distress.

The other source of capital sustaining financial assets was the mobilisation of resources from domestic institutional investors —as the pension funds— and holders of savings outside the banking system such as the mutual funds.

The incentives to invest in US assets revitalised the stock market, which saw a stable decline in the 1970s. Since the 1983 recovery, and more aggressively in the following years, foreign and institutional investors inflated the US stock market (Wigmore, 1998).

On the other hand, the prospect of sustained interest or dividend payments disincentivised the immobilisation of credit money in long-term investments. Firms started seeking less onerous returns by focusing on shorter-term operations. The result is fully appreciable in Krippner's econometric analysis of the increased incidence of portfolio income on non-financial enterprises' cash-flow. By the end of the 1980s, income from portfolio investment to firms' cashflow stood five times higher than during the post-war boom (2005, p. 184).

Finally, the combination of relaxation of antitrust law enforcement by the Reagan's administration and capitals searching for short-term profitability induced the mid-1980s wave of merger and acquisitions, quite often leveraged buy-outs financed by the issuance of high-risk "junk" bonds (Wigmore, 1990). Companies were acquired with the prospect of being broken up in restructured business segments to be swiftly sold, and the proceedings used to repay the debt and pass gains to shareholders of the acquiring company (Shleifer and Vishny, 1990). The capitals deployed in mergers and acquisitions greatly superseded the net non-residential capital investments in the period 1984-89: the latter totalled $84 billion on a yearly average, the former $184 billion (Crotty and Goldstein, 1993).

Moreover, the treat of hostile takeovers became a primary concern for publicly traded firms' managers. The 1980s saw the emergence of stock buybacks —the repurchase of its own stocks by a company, to increase their prices— to an unpreceded scale. This practice became a permanent feature of enterprises' revenues allocation strategy, which fundamentally contributes to the current overvaluation of US stocks. Stock buybacks further inflated perspective capital gains, accelerating foreign and institutional investors participation to the stock market. The price of shares soared, as the financial euphory so characteristic of the 1980s set in.

Following a sound research hypothesis of IPE, the "Volcker's shock" was so successful in reducing inflation because it created the conditions for the channelling of capitals from commodity production to financial assets' trade. Commodity price inflation was substituted by assets price inflation (Konings, 2007; Krippner, 2011). Or, as noted by the IMF, the mismatch between the decrease of inflation and high level of credit creation may find: «[a] possible resolution [in] that financial liberalization and innovation and other structural changes in the 1980s created an environment in which excess liquidity and credit were channelled to specific groups active in assets markets. […] These groups borrowed to accumulate assets in global markets —such as real estate, corporate equities, art, commodities such as gold and silver— where the excess credit apparently was recycled several times over. […]

The expansion in credit financed, for example, mergers and acquisitions, leveraged buyout, commercial real estate, and residential real estate» (1993, p. 39).
One key mechanism of the financialisation of the global economy was established, while one central component of neoliberal approach to economic policy —the pursue of price stability— was re-positioned at the apical level among the rule of operations of central banking.
One major point of confluence between the regulation theory and IPE in the analysis of the 1970s-1980s turnaround can thus be spotted in the role attributed to finance in exercising an internal pressure on, and a prospective way out from, the Fordist regime of accumulation. One can be tempted to reframe the post-war evolution of the monetary and financial system as the labour of credit money to escape the regulatory restrictions set after the Great Depression.
The limitation of these two strands of literature, and in particular of critical IPE, is the excessive reliance on the pattern of changes observed in the US economy as a proxy for the paradigmatic shift at the global level. It is true that the argument of IPE scholars revolves around the extension of US hegemony through the expansion and tighter integration of US and the world financial market. In the light of this research interest, the tectonic shift occurred in US economy after the stagflation crisis is both a reaction to the changing international conditions threatening the US hegemonic position and, by the virtue of this very same centrality of US and the dollar in world economy, as a powerful causal force of systemic change. This is not, or at least it is not intended here as, equal to say that a monolithic new American model was exported abroad.

2.4 Neoliberal thought collective and the diffusion of neoliberal polices

The evolution of the advanced capitalist countries through the post-war Fordist boom, the 1970s crisis and era of renewed accumulation encompasses a historical trajectory of ideas as much as of economic interests and party politics.

The conversion of central bankers to monetarism, despite the likelihood of it being a strategic move on the part of the top officials, is quite a case in point. The last strand of literature on the origins of the neoliberal turn I will survey had focused on the genealogy of neoliberalism, or more precisely of the *neoliberal thought collective*.

The research agenda deepened and expanded the initial insights that Michel Foucault offered in the seminal 1978-79 course at Collège de France (2008). There Foucault was positing the problem of the emergence of a new rationality of governing —a new *governmentality*, in Foucault's own terms. This new way of governing the people tends to supersede both the activism of the Keynesian New Deal or Beveridge's welfare state, that conceived of the state as a balancing force between society and the market, and the abstention from state's meddling in economic life prescribed by traditional liberal *laissez-faire*. Against the former, which stresses market failures and distributional inefficiencies, the superior allocative capability of free market is restated. The new governmentality operates a reprise of the marginalist conception of unfettered markets as a natural prices' discovery mechanism. «[I]nsomuch as prices are determined in accordance with the natural mechanisms of the market they constitute a standard of truth which enables us to discern which governmental practices are correct and which are erroneous» (*Ibid*., p. 32).

It is useful to briefly elaborate on Foucault's insightful description of the epistemological function performed by the market in neoclassical, and then neoliberal, theory. Foucault is primarily concerned with the construction of the market as an anchor to direct government's actions. Eighteenth and nineteenth centuries political economy had concocted a concept of market as a natural object, or rather as an entire field of natural relationships in which events take place according to a subset of observable dynamics. The mechanisms spontaneously at work in the market will react to the measures implemented by the government, offering a benchmark of their positive or negative effects, i.e. of their validity. The information conveyed by the market allows to contest the way society is conducted on the basis of the truthfulness of public actions, superseding the centuries-old debate on the legal limits to sovereignty. The question is now if the state should govern in the way it does, and not if it has the right to.

This crucial epistemological component of (neo)liberal governmentality rests on what Foucault shrewdly characterises as the construction of the market as a site of veridiction. When market mechanisms are allowed to operate, they will cause the formation of "natural" prices, which fully reflect the cost of suppliers and the utility of the buyers, i.e. the market value of a commodity. «[T]he importance of the theory of the price-value relationship is due precisely to the fact that it enables economic theory to pick out something that will become fundamental: that the market must be that which reveals something like a truth» (*Ibid*., pp. 31-2).

This is the core epistemic function of the market embedded in the classical liberal political economy and retrieved by neoliberal authors. Market transactions are equating to an independent process of truth-formation, that is to say, the market is the site of an autonomous creation of knowledge. Mirowski and Nik-Khan (2017) focus on the role of Frederick Hayek in recovering and further developing this take on the market as a superior and autonomous information-processing device, implicit in the neoclassical orthodoxy before the Great Depression. In his quarrel over the possibility of economic planning, the Austrian economist insisted that markets do not solely allocate resources efficiently —not unlikely sufficiently informed socialist planners. The market collects and coordinates fragments of information about resources, and their desirable utilisation, which are dispersed among individuals and not known in their entirety by any market actor. This epistemic function of the market lies at the heart of the justification of market creation as an optimal replacement of bureaucratic regulation for treating all sort of externalities —a view popularised by the market-based responses to environmental degradation.

To summarise, the epistemic and epistemological attributes of the market, according to the neoliberal conception of the latter, are so that the market is at the same time the most efficient information processing device and the site of validation of public actions.

Returning to Foucault's own argument, neoliberalism takes issue with nineteenth century *laissez-faire* too, on the premise that it assumed a natural and relatively linear path to market's formation. The concrete reality of exchanges is shaped by historical legal constrains to the free interplay of market actors, which must be kept in check for the orderly operation of competition to administer undistorted prices. Accordingly, the state «has to intervene […] so that competitive mechanisms can play a regulatory role at every moment and every point in society and […] a general regulation of society by the market» becomes possible (Foucault, 2008, p. 145).

Foucault traces back this regulative and ideal construction of the competitive market, as oppose to the assumption of the spontaneous formation of the latter in the absence of interferences, to the work of the Freiburg school, the group of German academics gathered around Walter Eucken' journal *ORDO*.

Foucault then compares the European ordoliberals to the influential strand of American free-market advocates based in Chicago.

The Chicago school of economics is credited with the application of the market ideal-type to social phenomena external to the field of the economics. In one eventful application of this principle, the Chicago authors expanded the definition of economic agent to encompass domains outside the traditional boundaries of rational consumer theory. In doing so, and in accordance to a central theme of Foucault's own intellectual enquiry, they placed a subject adequate to the competitive market theory at the centre of their interpretative framework of society. Gary Becker's theory of human capital, for example, is a reconceptualization of wage as a return on investment —a fictitious capitalisation of labour income Marx already stigmatised in vulgar economics (Marx, 1981, p. 596-7)— *and* a reconfiguration of the individual economic agent. The latter passes from the «partner of exchange […] and the theory of utility» to an «entrepreneur of himself, being for himself his own capital, being for himself his own producer, being for himself the source of [his] earnings» (Foucault, 2008, p. 225-6). The theory of human capital can be seen operating towards eradicating the analysis of the wage-relation rooted in exploitation —the unequal exchange between capital and labour, or more precisely between the price of labour power and the value created by its use in production. But it equally supersedes the neoclassical dichotomy between labour as an input of production and the indistinct rational consumer, reconciling them into the figure of the entrepreneurial subject.

The historical point of conjecture between the continental European and the American strands of neoliberalism is place by Foucault in the Walter Lippmann Colloquium held in Paris in 1938, a symposium on the future of liberalism celebrated amidst the fallout of the Great Depression and the built up of WWII. Among the distinguished academics participating to the Colloquium, Frederik Hayek will play a remarkable role in the development of Anglo-American neoliberalism. Hayek provided an intellectual antecedent for the generation of scholars which undertook the effort of dismantling post-war Keynesian consensus in economics —having himself polemised with Keynes during the debate on the aftermath of 1929 crisis. Hayek's contributions to political science swiftly became a catalyst for conservative politicians and pundits, offering a coherent framework for decrying the advancement of the welfare state as a socialist peril.
The ideal and ideological legacy of Hayek, a well-established topic of intellectual history, has been recently reinterpreted on the basis of the extensive enquiry into the organisational effort put in place by free-market advocates in the immediate post-war period. In 1947 the Mont Pèlerin Society (MPS) held its first meeting in the Swiss Alps, bringing together continental European and US academics, journalists, and think tankers akin to the project of making liberalism a viable political and economic alternative to the dangerously left-leaning policy consensus emerged as a response to the Great Depression (Plehwe, 2009). Hayek, then a member of the London School of Economics, was elected president of the society. Among the academic circles represented in the Society, the Chicago University —whose members Milton Friedman, Aaron Director and Frank Knight attended the meeting, while George Stigler, James Buchanan, Ronald Coase and Gary Becker joined the Society later— will become one of the most influential centres of the new thinking. Hayek will move to Chicago in 1950.
Hayek's direct contribution to shape the economics program at Chicago is topic of debate in critical genealogies of neoliberalism (Caldwell, 2011; Von Horn and Mirowski, 2009). Similarly, the compatibility of Hayek's economic thinking to the doctrine developed by the Chicago schools has been an issue in the history of economics for quite a long time, inscribed in the broader comparison between Austrian and neoclassical economics after the monetarist counter-revolution (see

inter alia Bellante and Garrison, 1988; Garrison, 1991). Despite the relevance of the topic to the deeper understanding of neoliberal intellectual origins, I cannot survey here the vast literature connect to it.

It is worth stressing that the proponents of the neoliberal thought collective are explicitly questioning the idea of a true and articulated doctrinaire system lying at the bottom of the various neoliberal strands of thought. They rather stress that some key constructs, as the ones identified by Foucault, start circulating among authors and disciplinary fields, undergoing an adaptive modification to fit discrete discursive constellations. This is an important component of neoliberal resilience, on which I will return in the next chapter.

It is no wonder that the first and the subsequent meetings of the MPS did not lead to the formulation of a political platform or a doctrine. The exchange among participants helped instead to establish a set of common principles and goals which would constitute the basis for further elaborating research and political agendas (MPS, 1947).

The crucial problem was how to efficaciously disseminate those values among the relevant interlocutors —fellow academics, politicians, top public officials, the business community— so that they could operationalise and diffuse them among the wider public.

To solve this problem, the MPS became in the years the centre of an intricate global network of knowledge-elaborating institutions. Plehwe and Walpen (2006) surveyed 104 active think tanks directly connected to members of the Society, among which the well-known US-based Atlas Network, Heritage Foundation, American Enterprise Institute, Cato Institute and, in Italy, Centro Einaudi. The proliferation of think tanks, diffusing free-market principles and adapting them to their specific fields and scale of action, is among the most remarkable examples of the neoliberal "war of ideas".

An anecdotal example may help proving the point. During her years as UK prime minister, Margaret Thatcher initiated a far-reaching programme of public divestiture from the industrial sector. The strategy of privatisation soon became a policy-template replicated globally.

The utility sector was accounting for a sizable proportion of the state-owned enterprises, and very little precedent existed of a coordinated privatisation of a such a strategic industrial sector. Nonetheless, over the conservative decade 1979-89 telecommunication, gas, water and —partially— electricity moved from the public to the private sector. With little consolidate institutional knowledge on how to establish a market for industries with a strong tendency towards natural monopoly, the government needed a fresh look on the economics of utility. Expertise from the academic world was brought in the privatisation process by relying on technical advices and, later, by appointing several experts in key positions of the industries' regulative bodies.

The growing galaxy of think tanks connected to the MPS represented a perfect transmission mechanism between the academic and the political circles. The Institute of Economic Affairs (IEA), established in 1955 by Sir Anthony Fisher and Lord Ralph Harris, both members of MPS, played a pivotal role in supplying both policy recommendations and technical personnel to the conservative government. The Centre for Policy Studies (CPS), founded by the Conservative MP and member of MPS Sir Keith Joseph after the party's electoral defeat in 1974 —and chaired by Margaret Thatcher before her election to prime minister— became instrumental to create a self-aware neoliberal faction inside the Tories. Sir Alain Walters, Professor at the London School of Economics, early and influential proponent of monetarism in UK, member of the MPS and closely associated with the CPS, became Thatcher's Special Economic Adviser in 1981.

Sir Stephan Littlechild, Professor of economics at Birmingham University, Walters' former student and member of IEA, was commissioned in 1982 to devise a price-setting mechanism for British Telecommunication in the time of its privatisation. Littlechild (1978; 1981) had written extensively about de-nationalisation of public enterprises for the IEA.

The problem Littlechild was tasked with was to avoid bestowing on the privatised company too much monopoly power while not encumbering the newly-privatised sector with strict price setting rules and profitability limits.

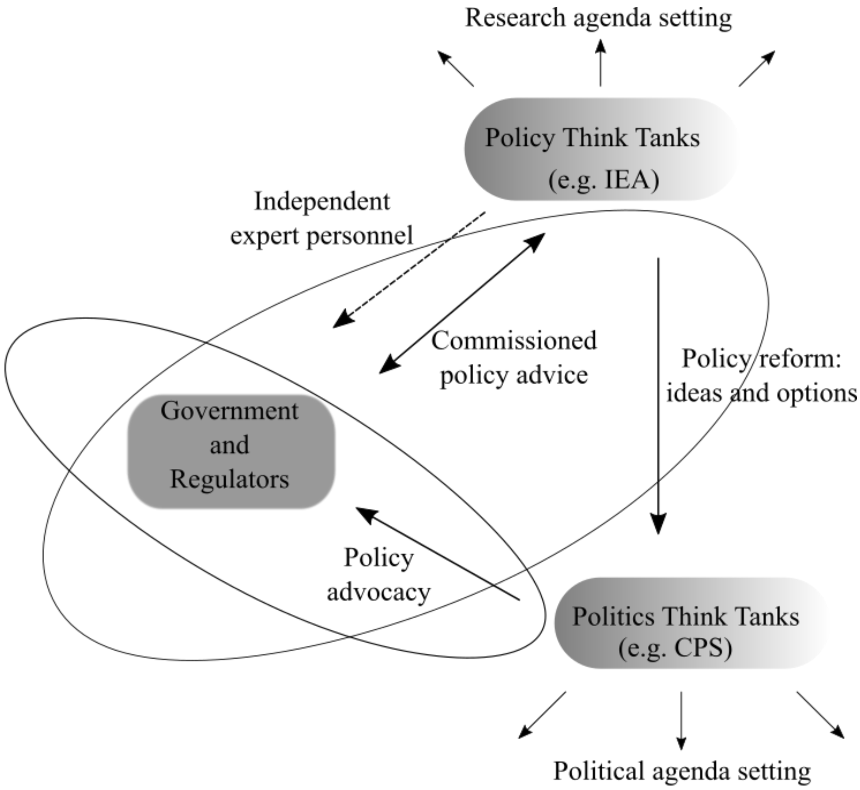

Figure 2.16. Simplified model of think tanks' role in policymaking.

The scheme of price settlement advanced by Littlechild was to become the regulative framework for all the privatised utilities. He was later appointed to the Monopolies and Mergers Commission, the central regulative body of the privatised industries, before becoming the head of the regulatory agency for electricity, after the sectoral privatisation took place.

The relevance of the circuit of knowledge exemplified by the British case should not be missed. Not only it represents a channel of knowledge and personnel transfer from (neoliberal) private research centres to public policymaking. It constitutes a cornerstone of the epistemic community which operates the reproduction and validation of neoliberal policies. This circuit helped to «define a sort of 'epistemic horizon of meaning', which connects and links actions and practices developed in different subsystems or diverse institutional domains» (Moini, 2016, p. 300).

The previous historical-theoretical discussion, which has no pretention of exhaustivity or completeness, bears the conclusion that the neoliberal turn corresponded to a systemic crisis of Fordism, which impaired the capability of its public and collective institutions and rules of action to maintain the nexus between (mass) production and (mass) consumption hinged on (moderately) progressive wealth redistribution. The successive phase of capitalist development can be interpreted as an attempt —seemingly successful— to revert this orientation, re-establishing a path to growth compatible with concentration of wealth.

The new priorities of public institutions have been identified, with the discussion of monetarism, in fine-tuning socio-economic regulation to allow the market mechanisms to function undistorted. Inflation became the control parameter of this shift, reorienting the theorical and practical view on the trade-off between fiscal and monetary stimuli and economic growth. Rethinking the nature of unemployment and its acceptable level —stemming from the deficiencies of the suppliers of labour and from the frictions in the labour market— was the pivotal point of the shift.

The question on if there was a corresponding change in the accumulation regime remains open. The introduction of the theme of financialisation hinted at a relative re-allocation of accumulated wealth from the productive sphere —the primary circuit of capital— to the re-deployment in financial markets. If this constitutes a sufficient reason to call for a new regime of accumulation, or if it is on the contrary a transitory phase in the exhaustion of Fordism, is a problem far beyond the scope of this elaborate. I will nonetheless maintain that financialisation has had observable effects on both the stability of capital accumulation and the functioning of the norm of mass consumption.

Finally, the ideal-scape sustaining the neoliberal turnaround was not animated only by theoretical fights over concepts. It was practically pervaded by knowledge centres elaborating, adapting and diffusing policy suggestions in line with broader normative constructs (free-market, competition, entrepreneurship, etc.). These knowledge centres formed the backbone of an expanding epistemic community, constituted and validated by academics, politicians and policy specialists.

The above described construct —a shift in the accumulation regime, mode of regulation and epistemic horizon— is what underpins the notion of neoliberalism as a *hegemonic project*. The notion, acquired from the historical-theoretical investigation, still lacks an analytical description, which will be pursued in the next chapter.

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3 Putting theory to work: analytical dimensions of neoliberalisation

Despite the evident discontinuities in historical trajectories of advanced capitalist countries, the identification of the theoretical and political constellation emerging from the 1970s crisis with neoliberalism remains problematic.

On one hand, the perceived deep modification of many —and possibly every— aspects of socio-political systems has spread the concept across a wide range of critical scholarships. The dissemination of critical theory of neoliberalism has surely facilitate the growth of research agendas characterised by a great variety of aims, guiding hypothesis and methodological designs. This intellectual vivacity does not, however, translate into a strong interdisciplinary research field. Rather, several parallel debates are interlinked by the usage of a similar conceptual toolbox, although they often show signs of sectorial divide.

On the other hand, even the relatively broad intellectual traditions presented in previous chapter —namely the regulation school, international political economy and genealogical approach— do not share perfectly superimposable analytical specifications of neoliberalism.

The lack of clarity regarding the nature of the concept, increasingly acknowledged by proponents, has repercussions on the epistemological robustness of the researches employing it. Competing and at times conflicting theoretical constructions are brought about by the relative proliferation of analytical dimensions described as constitutive of neoliberalism.

The ambiguity in the theory is partially responsible for the growth of empirical case-based studies, which contextualise the neoliberal turn into specific geo-institutional and disciplinary coordinates. This empirical work has been precious for substantiating the theoretical construct and detailing how market-oriented reforms do not reduce to a single blueprint fitting all the circumstances and spatial-historical circumstances. However, the turn to empirical research poses another serious challenge to the concept of neoliberalism. If the case-by-case analyses cannot be recollected into a broader theoretical framework, they will facilitate the fragmentation of research and the hollowing out of neoliberalism as a meaningful concept. The research agenda on the topic may break into national or subnational ontologies, not unlikely the variety of capitalism approach which the study of neoliberalism tried to supersede.

The problem was skewedly described by Brenner, Peck and Theodore (2010a) as the double unevenness of neoliberalism. Critical scholars should tackle, on a side, the uneven characteristics and diffusion of neoliberal reforms —the variegated path of neoliberalisation— while, on the other side, addressing the socio-economic uneven development which is inscribed in the neoliberal developmental model.

The present study addresses the first aspect of the problem, following the hypothesis that it is possible and desirable to describe the underlying analytical dimensions of neoliberalisation, which help to explain the practical and discursive hegemony obtained by neoliberal episteme since the 1980s turnaround.

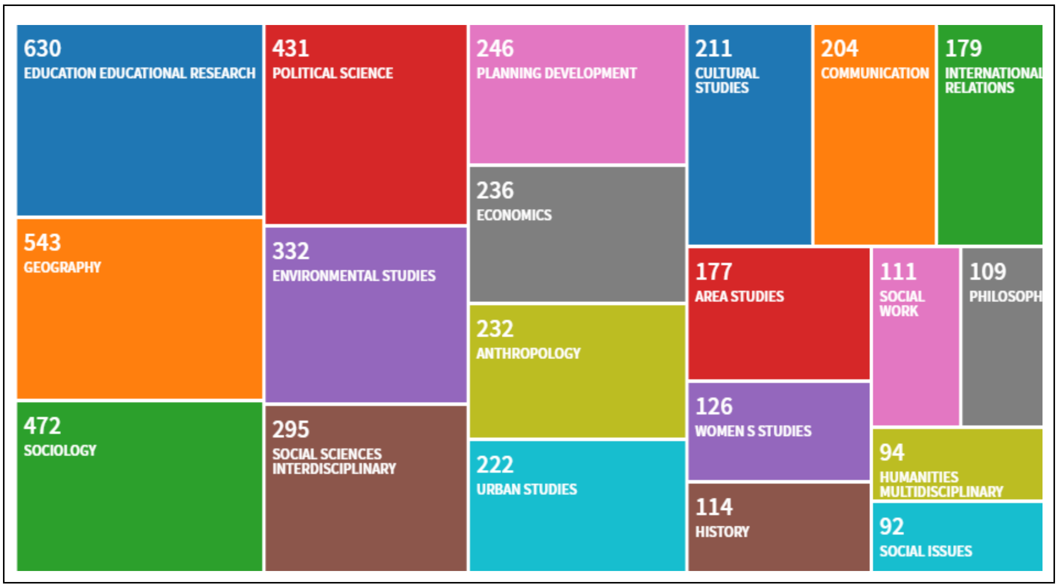

Figure 3.1. Academic articles having “neoliberalism” as topic, first 20 research areas, 2013-18.

Data source: Web of Science

As precautionary note, it is important to stress that the following theoretical enquiry is especially concern with neoliberalisation of institutions and, among these, of public service provision. The set of analytical foci and examples are thus clustered around this theme. This is not equal to say that neoliberal reforms occurred solely, or even primarily, in the camp of the state. Rather than seen neoliberalism as a form of statecraft, I prefer to stress the transformations induced by the neoliberalisation on the mode of regulation of public provisions.

3.1 Polysemous concept in a contended legacy

The notion of neoliberalism has been adopted as the descriptor of a plurality of phenomena since its adopting in critical studies. Flew (2014) has identified as many as six incompatible theorisations of the meaning of neoliberalism. The author argues that the term has denoted a general polemic target for scholarly controversies, the new policy consensus replacing the Keynesian recipes, a political ideology emanating from the Anglo-Saxon countries, fundamental change in capitalist accumulation process, an emerging technique of governing the people or —in some sort of combination of the former— a new institutional form of twenty-first century states.

The problematic polysemy of the term has been recognised by some authoritative proponents of neoliberalism as an interpretive framework. Brenner, Peck and Theodore (2010a) conceded that neoliberalism is becoming a “rascal concept”.

The scepticism about the conceptualisation of the neoliberal turn has been coalesced into an extensive debate within critical theory. Both the heuristic validity and usefulness of the concept has been questioned, supporting claims about the opportunity of abandoning the idea altogether. Scholars have contended that neoliberalism has become a ubiquitous (Clarke, 2008) and all-encompassing term (Venugopal, 2015), grouping together different phenomena under an umbrella concept.

The stretching of the semantic extension of neoliberalism is accompanied, according to the argument, by a diminishing explanatory power of the theory. The tendency to attribute an over-extended reach to the neoliberalism undermined the its epistemological soundness.

Neoliberalism risks thus to become an empty signifier, reflecting more the normative believes of the researcher employing it than any substantive characteristic of the phenomenon studied.

As a response to these cogent critiques, scholars who defend the heuristic usefulness of thinking about neoliberalism have started claiming a more rigorous specification of the boundaries of the term or the integration of the latter with constitutive analytical dimensions.

In the detailed review of the epistemological debate over neoliberalism, d'Albergo (2016) proposed a preliminary threefold description of the ontological designations entailed by the term. Neoliberalism is associated with 1. a macro-level paradigm, conducive of strong normative and cognitive commitments (a *Weltanschauung*), 2. meso-level policy blueprints, circulating between policy professionals and jurisdictions (programmes for action), and 3. a set of micro-level discursive and practical devices, highly context-sensitive and diversified (technologies of governing).

The possibility of addressing these three definitory foci at once rests on the capability of critical interpretative studies to strike a balance between empirical accuracy and theoretical soundness of a research programme.

If the three levels of thematisation are not necessarily irreducible to one another, strong interpretations of the components tend to exclude each other. Thus, if neoliberalism is intended as monolithic paradigm, it would come with a rigidly pre-determined set of policies and implementation paths, ignoring any path-dependency and context-sensitivity. On the other extreme, if neoliberal reforms are conceived of as hybrid and localised techniques for conducting specific communities towards specific ends, scaling them up and comparing them across geo-institutional space may prove meaningless. Here, the systemic nature of neoliberalism would rest in the eye of the beholder.

Finally, if the knowledge dissemination brought about by trans-national policy centres —and the geopolitical implications attached to it— is the preferred level of analysis, both the underlying shared epistemic horizon and the site-specific articulations would be overlooked.

In broad terms, the studies on neoliberalism presents traces of the epistemological debate characterising social sciences in the last decades, namely the confrontation between structural and post-structural interpretation of socio-historical phenomena. By the means of a sketchy summary —because the publications on the matter are legion— in the first camp fall the approaches which prioritise the transformative processes taking place in the sphere of socio-economic relationships brought about by the neoliberal turn.

Neoliberalism is thus portrayed as political project for the restoration of class power and for overcoming the limits to capital accumulation underlying the 1970s crisis (Harvey, 2005). Neoliberalism is thematised as a complex web of interventions aimed at removing the internal barriers to accumulation —such as strong unions, restrictive regulatory framework on industrial relations, industrial standards— and the expansion of external opportunities for accumulation.

The income-polarisation experienced in the past decades, accepted in the advanced capitalist countries as an unfortunate by-product of technological development and of economic development in emerging countries, is the proper outcomes of this multifaced strategy.

The second strand of literature is stressing how neoliberalism should be seen as a new rationality of governing "free individual" (Ong, 2007). This art of government, a *governmentality*, following Foucault, is the main topic of interest in this literature (Rose *et al*., 2006).

The term is associated with the re-shaping of individual and collective identities, interpersonal relations and even subjective self-understanding. Among the various co-determinants of the neoliberal subjectivity, such as social atomisation resulting from the de-legitimisation of ideal and practical political affiliations or the internalisation of competition through education and working environment; the notion of individual responsibility and empowerment are particularly relevant.

Neoliberalisation can be seen as a deep modification of the means and ends of public action, which is re-oriented towards supporting the reproduction of a highly socio-economically polarised society. In doing so, neoliberal public actions become instrumental to accumulation strategies pursued by economic elites (Moini, 2015a)

Over and above the force of material interests pursued by neoliberalisation —which benefit of the socio-economic resources of the actors interested in their reproduction— the ideational dimension of neoliberalism seems remarkably resistant to challenges. The conceptuality characterising neoliberalism as being described as plastic, adaptable and resilient (Schmidt and Thatcher, 2013).

As it was discussed in the previous chapter, it is not the case that neoliberalism is positively codified in a set of axioms trough a dictionary body.

However, the relationship between this ideational constellation and the material interest favoured by neoliberal policies should not be reductively characterised as instrumental. The problem of coordination between material interests and ideas is far too wide to be tackle in the present work. Nonetheless, it is worthy briefly noting how the debate on neoliberalism was animated by this problem since its inception.

Define neoliberalism as a political and/or economical ideology is therefore incorrect on two counts. First, on the historical-theoretical side, neoliberalism is constituted by multiple and sometime competitive doctrines (e.g. the so-called Reagan's "two-wheels car", where monetary austerity was initially uneasily co-existing with high personal income and business detaxation). It stretches across several disciplinary fields, allowing to key notions to migrate —quite often in the form of analogies. Rather than a clearly predicated ideology or a doctrine, neoliberalism constitutes an epistemic terrain supported by an epistemic community. This is not to deny that neoliberal concepts have become tools of political agitation, and sclerotised into ideological formulas —e.g. the aprioristic claim of public institutions' inefficiency, or the stigmatisation of welfare recipients as lazybones.

Second, and by the same token, it is nowadays difficult to distinguish a "neoliberal party" among the major political formations. And it will be utterly misleading to attribute the support to neoliberal policies to the conservative parties only (despite the Tories' and Republicans' role in the 1980s).

A renewed interest in the notion of hegemony has surfaced in the literature, as a potential bridge between the class interest and ideational research agendas. The capability to form a consensual regime of ruling is connected to the ideational dimension of neoliberalism. The hegemonic position of neoliberal ideas is an expression, according to this interpretation, of the production of an epistemic horizon shared by an epistemic community —of policymakers, practitioners, business leaders— which share a common set of meanings, over and above any explicit common political aim (Moini, 2016).

The capability to mobilise discourses and representations which portray how neoliberal policies foster *the* common interest (the interests shared by the people), and connecting them to the figures of speech or immediate concepts deeply ingrained in common sense, is the fundamental power of neoliberal hegemony.

The example of the future evoked by Thatcher (1985) «where owning shares is as common as having a car» is illuminating. Dardot and Laval, adopting Foucault's approach, speak of the intertwining «techniques [which] help to manufacture the new […] 'entrepreneurial subject'» (2013, p. 259).

Stuart Hall aptly captured the capability of Thatcherism to articulate its ideological content with the common sense. It was this character of "practical ideology" that allowed Thatcherism to play «the people/power bloc contradiction'» in «the negative pole of statism, bureaucracy, social democracy, and 'creeping colletivism' [a]gainst […] possessive individualism, personal initiative, 'Thatcherism' and freedom. […] Thus, social democracy is aligned with the power bloc, and Mrs Thatcher is out there 'with the people'» (1988, p. 142).

However, Hall reminded us that this message of purported freedom was complemented by instilling a sense of fear for the unruly time the UK was facing under Labour, for the "aliens" taking over the country and the muggers in the street. Neoliberal hegemony is thus constitutively capable of turning into authoritarian populism, when the time for "policing the crisis" comes.

3.2 Devising a synthesis: neoliberalisation

The term neoliberalisation emphasises the processual moment of neoliberal reforms. Rather than taking a outcomes-oriented stance on what constitutes neoliberalism (e.g. by confronting an ideal checking list with the observable results of policy reform), neoliberalisation encompasses the diachronic aspect of neoliberal reform generation, circulation and adoption. Focusing on neoliberalisation more than on neoliberalism is one heuristic strategy widely proposed in the literature.

As noted by Peck, «neoliberal restructuring schemes […] will always be incomplete. [T]heir tendency to overreach and overflow […] will inadvertently prompt double-movement counteractions of various sorts. These counteractions, however, […] may impede neoliberalization or enable its (nonlinear, adaptive) reproduction» (2013, p. 144).

The unfinished business of neoliberal reforms, and the capability of this ideational repertoire to mutate in response to localised crisis of implementation and to socio-economic conundrums posed by its own adoption, is one fundamental reason for the shift in critical studies from the focus on neoliberalism to the insistence on neoliberalisation. Moreover, since the restructuring programs always take place in a dense institutional and social space, their content is modified by the interaction with pre-existing site-specific conditions. In this second sense, neoliberalisation can be seen more as variegated and path-dependent transformation than as the gradual accomplishment of an ideal neoliberal-fullness.

Although the moral and rhetorical justification for enlarging the market rests upon the assumption that individual freedom is enhanced as long as the state intervention is restricted, what neoliberalism actually does is promote new regulations in certain socio-economic areas. «The co-optation of market-constraining interests and institutions; the erection of flanking mechanisms to manage the polarizing consequences of intensified commodification; and the reinforcement, entrenchment or mutation of neoliberal policies in the face of opposition or outright failure – all these are part of the extended dynamics of institutional creative destruction under conditions of deepening neoliberalization» (Brenner et al. 2010a, p. 197).

Following Peck and Tickell, the processes of neoliberalisation can be differentiated into two macro-phases. The first, *rollback* phase is characterised by the state's retrenchment in core policy areas —such as offloading social programs from public budget, liberalising and/or privatising industrial sectors previously under monopoly regulation, and backing off state's guarantees from collective bargains.

The second has been characterised by as *roll-out*: a «phase of active state-building and regulatory reform» (2002, p. 384) which modified and consolidated the neoliberal project across geo-institutional spaces and levels of government.

The authors stress how the implementations of rollback reforms did not happen once and for all in a coherent institutional framework, so that neoliberalism did not become a concurrent form of statecraft alongside the older Keynesian welfare state (as it is largely implied by the VoC approach). Rollback and roll-out phases, de- and re-structuring the edifice of modern socio-political regulation, are better read as modalities of neoliberalisation rather than as temporal moments in the teleological development of neoliberalism (Moini, 2015b).

Hence, it would be simplistic and erroneous to identifying neoliberal reforms with limited government and anti-statist political programs. Firstly, the roll-out phase corresponds to a normalisation of neoliberal priorities, which thus lose the radicalism characterising their disruptive introduction into the political and policy landscape. Secondly, while neoliberalism is often associated with the passive stance on socio-economic problems of the night-watchman state —e.g. removing unduly restrictions and setting the minimum legal boundaries for private initiative— the roll-out phase commits public regulation to an active role in expanding businesslike conditions and sustaining markets across the socio-economic spectrum.

Finally, the roll-out arrangements tend to amend previous rollback policies, tempering the high negative externalities of retrenchment and deregulation. However, the ensuing re-regulation interiorises the means and ends of market-oriented reforms, turning correctives to the shortfalls of previous rounds of reforms into further neoliberalisation. In the light of this, the often-cited Thatcher's motto "There is no alternative" acquires a supplementary meaning: the conceivable correctives to free market reforms seemly have to follow the same market-oriented logic.

The translation of this theoretical construct into historical phases of neoliberalisation may lead to misinterpretations. In a simplified version of the argument, the diffusion of rollback neoliberal reforms roughly corresponds to the 1980s and the first half of the 1990s, and was limited to Anglo-Saxon countries (US, UK, Australia and New Zealand) and to a restricted number of countries in the

Global South (most notably Pinochet's Chile). However, as the inflow of funds — mostly short-term debt funnelled through the Eurodollar markets— to developing countries reverted after the Volcker's shock, stringent versions of neoliberal rollback reforms were included as conditionalities to IMF and WB loan programmes to distressed developing countries (Stewart, 1987).

Starting from the mid-1990s, just as the long conservative wave in US and UK was coming to an end, several tenets of previous reforms came under scrutiny. Among the various dimensions of public regulation and intervention, we are taking social policies as temporary focus for easing the exposition.

The delegitimisation of welfare entitlements under Thatcher and Reagan —as exemplified by the infamous campaign against the gendered and racialised "welfare queens" (Gilman, 2014)— translated into severe cuts to income-support programs and unemployment benefits, as well as into the restructuring of public pension schemes and, especially in UK, of public housing provision.

The administrations of Clinton and Blair inaugurated a new chapter in transformation of welfare policies. Their tenures have had deep geo-economic, socio-political and institutional implications, which I will not attempt to survey here. Limited to the debate on neoliberalism, the *Third Way* pursued by the New Labour and New Democrats has been variously interpreted as a second round of (tempered) neoliberalisation or as a discontinuity from the neoliberal project championed by conservatives on both side of the Atlantic.

In the latter interpretation, the relaunch of state's role in guiding inclusive economic growth passes through the superseding of the traditional protective nature of welfare measures. The passive public guarantees of the welfare state were to be substituted by measures aimed at the activation of the welfare recipients. Beneficiaries become the target of public investments, aimed at 1. increasing the stock of their human capital (e.g. early childhood expenditures and unemployed re-training), 2. stabilising the varying flow of returns from employment (e.g. conditional unemployment benefits which match the increase job flexibility), and 3. cementing the buffers against shocks represented by social safety nets (e.g. means-tested cash transfers to households falling below the poverty line) (Hemerjick, 2015).

The rise of the social investment (SI) state was to become one of the major features of the *Third Way* political experience. Proponents argue that the SI paradigm modernises the post-war welfare regimes, making them suitable to the rising risks and uncertainty connected to the exogenous processes of globalisation and technological innovation, while superseding the ideological neoliberal reduction of state's expenditures to exercises in unproductiveness and wastefulness: (Ferrera, 2010; Leoni, 2016; Van Kersbergen and Hemerijck, 2012).

The discontinuity between neoliberal and SI strategies, however, remains a point of contention. Even proponents are quick to recognise that SI paradigm focuses «on 'problems of supply' and on solutions that called on workers to make themselves more employable» (Jenson, 2009, p. 41).

Self-reliance of individuals, prospective autonomy from welfare transfers (through the so-called 'exit strategies'), flexibility of labour supply and preference for private employment over public job-creation are characteristics shared by the early neoliberal and SI reforms.

In broader terms, borrowing the words from Anthony Giddens —the most eminent theoretician of the *Third Way*— in the «asset-based positive model of a social investment […] the state is providing if you like an infrastructure for an effective market economy» (2004, p. 3).

As we saw, the proactive role assigned to state in supporting private economic initiative represents one distinctive character of roll-out neoliberalisation. Early critiques of the Thatcher's and Reagan's administrations highlighted, quite presciently, the novelty of state's "active" commitment to lower the cost of labour through policies «that reduce the availability and attractiveness of universal income maintenance programs and increase the attractiveness of work under any circumstances, and that increase business proprietorship of jobs programs» (Robertson, 1986, p. 279). The diffusion of income and unemployment programmes conditional to the willingness to work (possibly any job) —the workfare component of neoliberal social spending— was introduced as a policy experiment as early as 1972 during Reagan's governorship of California (Pierson, 1994, p. 123). Workfare was cemented into public policy strategies by the activation rhetoric of SI, embedded in New Labour's *New Deal* and New Democrats' *Personal Responsibility and Work Opportunity Reconciliation Act*.

This brief discussion of SI policy paradigm, which has itself undergone several modifications in the following decades, served the purpose of exemplifying the continuities and discontinuities which characterise the unfolding of neoliberalisation strategies. This feature, together with the geo-institutional and scalar differentiation in implementation, constitutes the extended definition of neoliberal variegation adopted in the present work.

The concept of normalised neoliberalism, proposed by Hay (2004) aptly captures the transposition of neoliberal policies from an exceptional status, connected to the disruptive emergence against the previous policy consensus, to a state of normal science in policymaking.

A similar process of neoliberal normalisation can be identified in the context of public institutions' modernisation. This latter policy objective represents the core tenet of the new approach to public administration associated with New Public Management (NPM).

The stress on fiscal viability of national and subnational governments' budgets, a consequential result of the anti-inflationary mindset that took hold in the 1980s, altered the scope and the modalities of public engagement in the provision of goods and services. The width of the public ownership and direct operation of enterprises — as in the case of the state-owned enterprises (SoEs) which characterised the "mixed economy" model adopted in continental Europe, UK, Japan and emerging countries— were to be severely reduced. Only some core —and ill-defined— public services may remain under closer public control, e.g. primary education, income-support policies and, at times, health services. The other areas in which SoEs traditionally operated, such as public transport, utility services, infrastructural development, telecommunications and strategic industrial productions, should be open to private initiatives through various forms of contracting out —e.g. competitive tendering— or outright divestitures. The core public services were not to remain unchanged either. Performance measurements, cost-effectiveness, result-oriented economic incentives, flexible employment and financial and decisional autonomy assumed a leading role in the reorganisation of the public sector.

These organisational innovations have been coupled with transformations in service delivery model. A greater emphasis is placed on the constitution of market mechanisms for the provision of public goods. Quasi-markets, enforced through voucher systems, were experimented in those sectors that were not subjected to concession or privatisation. The logic of market-based service delivery was instilling competitive pressure on public providers —possibly by including Third Sector and private organisations in the service suppliers offered to consumer's choice.

These two dimensions of public administration restructuring have been summarised via the umbrella terms decentralisation and outsourcing (Alonso *et al*., 2015), although they both seem to offer only a defective description of the NPM. Among the many detailed taxonomies of the conceptual components of NPM —which often suffer the specular problem of over-definition— I am here following the influential contribution of Hood (1995), which identifies seven main definitory elements.

	Organisational innovations	
1.	Unbundling and reaggregation	Agencies/corporations organised according to the type of production and bestowed with a degree of autonomy (legal, decisional, financial).
2.	Private sector management practices	Introduction of private industrial relations; private consultancy involvement in restructuring.
3.	Standardised performance indicators	Reliance on quantitative measurements of output and outcome; independent professional audit and evaluation.
4.	Empowerment of managers	Relative independence and discretion over operational decisions.

	Operational innovations	
5.	Efficiency and cost-effectiveness	Reducing input costs for same level of output; choosing the less costly alternative programme of action.
6.	Performance-based incentives to management and employees	Introduction of economic incentive pegged to indicators (e.g. cost reduction, customer satisfaction).
7.	Competitive provision	Introduction of competitive processes between alternative public providers and between public and private supply.

Table 3.1. Taxonomy of NPM reforms.
Source: Author's elaboration on Hood (1995).

On top of the restructuring of organisational and operational features of public service provision, the NPM is associated with a reconfiguration of the status, and even the subjectivity, of the recipients.

This modification extends into the relational interaction between providers and beneficiaries (Streeck, 2012). The latter increasingly came to be seen as a customer, with individualised needs and preferences. The proponents of a re-interpreting citizens as customers argued against the one size fits all approach to the delivery of public services, and for the customisation of service provision which would reflect the actual preferences of the recipients for the service. The previous vertical approach in designing and delivering public services would have to be substituted by a more horizontal approach to customer's satisfaction feedback.

Quite predictably, the set of reforms characterising the NPM have been declared dead and gone around the late 1990s and early 2000s (Dunleavy *et al.*, 2005), As in the case of social policies, the turn of the millennium has spurred optimistic views about the end of the radically businesslike mindset of NPM. It has been disputed that NPM would have to be superseded by new administrative paradigms such as the new public governance (Osborne, 2006), or the New Weberian State (Pollitt and

Bouckaert, 2011). Without possibly surveying the rich literature on post-NMP (see *inter alia* Christensen and Lægrid, 2007; 2011), it seems fair to assert that a process of normalising neoliberalisation is at work on the front of public administration restructuring too. This does not equate to deny that, as in the context of SI, macro-modulations of neoliberal reforms are discernible on top of the site-specific differentiations of their design and implementation.

One persistent theme associated with the post-NPM approach is the shift from *government* to *governance*. The latter term has become ubiquitous in the parlance of international organisations, public administrations and social sciences.

A simplified, albeit admittedly broad, definition of governance is given by the WB: «the manner in which power is exercised in the management of a country's economic and social resources [moving] beyond the capacity of public sector management to the rules and institutions which create a predictable and transparent framework for [...] public and private business» (1992, p. 3).

Despite the extreme vagueness of its meaning, it is safe to say that it is connected to the re-shaping of national level authorities and their co-ordination with sub- and supra-national levels.

In the context of public service provision, governance is characterised by one ingrained theme: the necessity to include all the potential beneficiaries of public services into the decision-making and implementation processes. This inclusion aims at the reduction of decisional asymmetry through the horizontal diffusion of authority. It implies forms of reflexive partnership between institutional and private actors, so that communities' needs are the object of a process of discovery and their satisfaction is obtained by the mobilisation of communities' resources.

There seems to be here a strategic broadening of the process of political participation, which aims at the legitimisation of public resources' distributional arrangement through the insistence on the audit of all the relevant stakeholders. Participation becomes co-production of the public services by social enterprises, localised philanthropy and non-for-profit organisation (horizontal subsidiarity).

All the processes identified until in this section are results of neoliberalisation, explananda which call for a more detailed analytical definition of the processes of neoliberalisation. The following sections attempt to organise this explanatory specification around three categories —and the related literatures: depoliticisation, market expansion and financialisation.

3.3 Depoliticisation

Depoliticisation has acquired a renewed centrality among the interpretative categories of public decision-making and administrative reforms. The history of the concept is intrinsically connected to the processes of neoliberalisation, although this connection has been more formally explored only in recent years.

The first generation of studies on depoliticisation was spurred by the deep modification of the scope and modalities of government after the 1980s.

In a milestone contribution, Burnham (2001) took issue with the set of reforms to economic regulation—most notably the reinforced independence of the Bank of England in pursuing stabilising monetary policies— that the British government enforced under Thatcher and subsequently confirmed under Blair. The author identified three main shifts in the mode of regulation. First, an increasing number of functions over rule-setting, control and direct operation were moved away from the direct reach of political —in the narrow sense of elected— bodies towards independent agencies. This form of competencies' redistribution, often referred to as arm's length regulation, underpinned the creation of the sectoral quasi-autonomous non-governmental organisations overseeing the privatised industries.

The second depoliticising shift was identified in the centrality attributed to external validation of government's strategies and policies through increased transparency. The latter was connected to the third depoliticising movement, which tied public decision-making to credible rules, such as maintaining a target inflation rate, thus reducing the political steering capability of elected bodies.

These intertwined layers of depoliticisation were conducive of «a governing strategy [which is] placing at one remove the political character of decision-making» (*Ibid.*, p. 128). This first definition helped shaping the debate towards recognising depoliticisation as a practical and discursive device adopted for sheltering elected officials from bearing the consequences of unpopular policy choices. The transfer of responsibilities from institutional to non-institutional bodies and processes is thus here mainly a form of arena-shifting, a tool of indirect political control which allows the simultaneous relieve of responsibility from actors under electoral constrain (Flinders e Buller, 2006).

The underlying logic identified by Burnham, while precisely identifying the paradoxical political dimension of depoliticisation, came under scrutiny for focusing too narrowly on the role of government in developing and implementing depoliticisation strategies. In particular, Burnham formulation seemed unable to capture the radical rebalancing of decision-making competencies between state, market and civil society characteristically inscribed in the neoliberal turn.

The call for moving beyond the state as the principal level of analysis and towards a more nuanced understanding of depoliticisation as an expression of a horizontal diffusion of decisional power over a number of previously core areas of public decision-making (Fawcett e Marsh, 2014).

The second generation of studies on depoliticisation is thus widening the scope of the research agenda from the original "strategy of governing" perspective, and becoming more sensitive to the dynamic interaction between depoliticisation of public actions and the politicisation of private interests, which increasingly appears as an expression of a novel mode of governance (Wood, 2015).

The processual dimension of (de)politicisation has been characterised by Hay (2007) as the movement of an issue through different degrees of social decision-making. A problem is depoliticised when it moved from 1. a maximum degree of formal public deliberation (the sphere of government and democratic institutions) to 2. collective deliberation (the public sphere, intended by Hay as the space in which international, technical, entrepreneurial and communal organisations operate), to 3. domestic deliberation (the private sphere, where choices are a matter of individual preferences) and finally 4. excluded from possible deliberation (entering the realm of necessity, removed from human agency). The opposite movement of politicisation tends to bring issues from necessity to the private, collective and institutional spheres.

Wood and Flinders (2014), in a widely influential contribution, reorganised the analytical dimensions of depoliticisation in the light of Hay's conceptuality, while moving away from the narrow focus on the degree of deliberation implied by the latter.

The authors distinguished three structural dimensions of depoliticisation: a. governmental, b. societal and c. discursive, presented here in a sketchy summary:

> a. Governmental depoliticisation encompasses the "governing strategy" concept advanced by Burnham. The transfer of decisional and controlling functions from (democratically legitimised) institutions to a range of non-governmental, technical or corporatized agencies is the distinctive trait of this form of depoliticisation. As discussed before, the modalities through which the process takes place include shifting responsibilities to arm's length authorities (e.g. independent agencies regulating and controlling a specific productive sector), and the limitation of the discretionary legislative power via the adoption of binding rules (e.g. a self-imposed or externally enforced balanced budget amendment). The purposeful diffusion of responsibility among a high number of actors may induce a similar depoliticising effect.
>
> b. The account of societal depoliticisation offered by the authors follows closely the movements across the spheres of deliberation proposed by Hay. The mechanism is the slippage of a social problem from the public deliberative sphere to progressively lower level of deliberation (towards the confinement in the individual sphere of choice). Following perhaps too closely Hay, Wood and Flinders discusses this second "face" of depoliticisation focusing narrowly on the declining collective commitment to political activism and its connection to the extended removal of social problems from the public arena —i.e. the declining political participation in a "choice-less" political system. I will argue for a reformulation of this dimension further below.
>
> c. Discursive depoliticisation occurs when an issue is ideationally and/or linguistically framed so that alternative conceptualisations or decisions on the matter are rendered impossible. Discursive depoliticisation can ensue from the gradual shift of public debate on socially relevant issues towards

> technical or specialized contents, or when the discussion is steered towards a single and unquestionable direction. The rhetoric invocation of a “policy, not politics” approach to social issues or the transfer of discourses on social problems to the exclusive supervision of expert knowledge are modalities in which this form of depoliticisation appears.

As noted by the authors themselves, the difference between societal and discursive depoliticisation seems quite tenuous in their framework. Furthermore, despite recognising that societal depoliticisation is more than the dislocation of decision-making between various arenas, the literature surveyed by the authors offer little clarity on this subject.

The second “face” of depoliticisation, as framed by Wood and Flinders, seems to narrowly focus on the question “who discusses and deliberates over this?”. I would tentatively suggest that this second dimension should rather encompass the remodulations of 1. citizens’ rights and duties and of 2.the engagement of privates and civil society in collective problem-solving that seem inextricably intertwined to the processes of neoliberalisation. Therefore, societal (de)politicisation may be better conceived of as responding to the question: “whose problem is this?”.

The redefinition of the socio-economic right to a set of public services —e.g. basic utility service provision, public housing, public transportation, etc.— in terms of consumer’s right moves the problem a step farther away from public concern and collective response. The issue is depoliticised in a societal sense, quite consistently with the author’s own reading of Hay, because it is «displaced from the public (non-governmental) sphere to the private sphere, in the sense that it becomes a matter of private/ consumer choice». (*Ibid*., p. 155).

Alternatively, and slightly more difficult to fit in Wood and Flinders’ frame, societal depoliticisation occurs when issues of immediate collective concern, and thus traditionally included in the sphere of decision and action of the public institutions, are shifted towards private actors (enterprises, NGOs or community organisations). In this second sense, the resources of the private sphere are directly mobilised for the solution of problems that have become unsolvable by public institutions alone. The private sphere thus acquires a supplementary role in dealing with collective issues.

Summarising the argument by the means of an example, the expert-led and univocal discourse of the fiscal crisis of the state (discursive depoliticisation) may trigger a set of institutional reforms aimed at curbing public spending and increase efficiency (governmental depoliticisation), which in turn supports the entry of private actors in the provision of public services and the contextual slippage of access rights into the sphere of competency of a well-managed household (societal depoliticisation).

The fluidity and interconnectedness of the three dimensions of depoliticisation, emphasised by Wood and Flinders, are evident in this example. However, it seems analytically useful to distinguish between the movements of formal decisional power between institutionalised authorities —as depicted by the first “face” of depoliticisation— and the shift of the responsibilities from the public to the private sphere.

Second generation studies are characterised by a renewed interest in the constellation of material interest and ideational contents that guide the processes of depoliticisation. The “governing strategy” approach attracted criticisms for too simplistically attributing the agency of depoliticisation to elected officials, eager to displace the blame for tough political choices. The structural reformulation proposed by Wood and Flinders, while offering examples of the dynamic interaction between depoliticisation and (re)politicisation, seems to understate the relevance of non-political actors’ motives for explaining the processes of (de)politicisation (d’Albergo, 2017).

The focus on agency, and on its material and ideational motives, seems closely connected to the unpacking of the relationship between neoliberal reforms and depoliticisation. The calls for caution, often found in the literature, about reducing depoliticisation to an entirely new neoliberal phenomenon are here particularly relevant. (Strange, 2014). Arguments were presented against a mechanic and almost automatic superimposition of the emergence of depoliticising strategies and the work of an underlying neoliberal rationality of government (Hay, 2014), and for the reconsideration of the scope of depoliticising strategies over and above the (neoliberal) response to crises —i.e. displacing the blame for austerity measures (Burnham, 2017).

If depoliticisation is not an invention of neoliberal statecraft, it is nonetheless a strategic resource of market-oriented public action. The differentiated "faces" of (de)politicisation denote dimensions and modalities by which institutional and private actors can promote specific material interests while "placing at one remove" the responsibilities or private gains deriving from the course of action. In pursuing (de)politicising strategies, cognitive frames are employed, refined and reinforced. For example, public sector's capital starvation can be a powerful means of discursive depoliticisation, prompting calls for private investors to step-in and fill the financing gap. The resulting need for remunerating the capital employed, possibly prompting cost-cutting or service fees increases, can be framed as necessary condition for efficiency gains.

The proposal from d'Albergo e Moini (2017) of a "dual movement" is shedding light upon the complex relationship between neoliberalisation and depoliticisation. The authors reconsider the processual nature of depoliticisation, which was emphasised by Hay (2007) but set aside in the structural approach of Wood and Flinders (2014). They stress that the depoliticisation of the actions of democratically sanctioned institutions is accompanied by a contextual —although to necessarily specular— politicisation of non-institutional interest groups. The ability to promote the interest of specific social or private actors is, and has been in the past, the flip side of the depoliticisation of institutional action.

The relationship between depoliticisation and politicisation is further broken down in two set of permutations. On the side of depoliticisation, it can be distinguished a 1. proactive form, corresponding to an intentional strategy pursued by institutional actors, which delegate or drop an issue from their sphere of action, and 2. a reactive form, which comes as a response to the strategies employed by private actors for promoting an issue into the public of governmental sphere. To these correspond another pair of politicising processes: 1.1 reactive politicisation, when private actors size the issue and/or political space which was left by institutional actors, and 2.1 proactive politicisation, when private actors put in place a strategic move to substitute institutional decision-making.

The dynamic interaction of depoliticising and politicising strategies helps introduce a further diachronic dimension of analysis, but do not constitute per se a modality of neoliberalisation. Rather, neoliberalisation intensifies the opportunities for reactive and proactive politicisation of specific interests, while selectively reducing the scope of actors that can meaningfully attempt to politicise their claims.
Summarising, neoliberal (de)politicisation can be interpreted as a shift of the responsibility for choices selectively favouring specific interests towards decision-makers or decision-making processes that should appear neutral and independent (governmental). Furthermore, by progressively moving the response to social needs from public institutions to civic society and private organisations, it facilitates the coordination between resourceful interest groups and public actors (societal). Finally, it helps to frame decisions which favour specific interests as a technical and non-conflictual matter (discursive).

3.4 Market expanded

The problem of determining how neoliberalisation can transform institutional space into a field of opportunity for private gains calls for considering neoliberalisation and its interaction with capital accumulation.
Certain cognitive elements connected to the market-oriented reforms of the public sector have already emerged from the previous discussion of the modernisation effort initiated in 1980s. The recurrent theme of the superior efficiency of services structured according to a business model is a good representation of this line of reasoning.
The rationale behind, for example, the privatisation of SoEs is that a competitive market is capable of self-regulating and of redeeming perceived market failures (e.g. private monopolies) in the long run. On the other hand, production of goods by the state (e.g. nationalised industries) leads to stable distortions and thus to the inability to “serve the market” properly.

Critical scholars have since long associated neoliberalism with the confidence in the superiority of the market provision of all goods and services —in the strongest version of the argument— over public or collectivised provision. Given the superiority of market provision, commodity exchange should be the form of coordination for the allocation of goods and services previously kept outside the scope of the market. Drawing from the Marxist tradition, this general process can be labelled as *commodification*. However, the complexity of the processes neoliberalisation have induced scholars to proposed more articulated conceptualisations of the process of market expansion.

Bakker (2007), for example, lists three main levels of intervention and seven types of reform which have characterised the adoption of a profit-led and market-oriented strategy to provision of water services. This variegated policy framework may not operate as a coherent whole in every and each case. For example, while privatisation —or the transfer of assets to private ownership— may not occur, water services may nonetheless be managed according to commercial principles, such as full cost recovery or dividend payment

Castree (2008) presents an equally complex ideal-typical reconstruction of the main modalities through which neoliberalisation proceeds. The attribution of ownership rights to the private sector for previously state-held, communal or non-attributed resources (*privatisation*), is accompanied by the pricing and exchange of previously non-tradable goods (*marketisation*). The neoliberal institutional shell mixes state's retrenchment (*deregulation*), and the enhancement of the private sector self-regulation, with regulative interventions supporting the creation of market for public goods (*reregulation*). The adoption of market-oriented reforms for modernising the residual public sector (*corporatisation*) is coupled with the creation of "flanking mechanisms" for the participation of civil society in the stewardship of social and natural resources *(subsidiarity*).

While extremely insightful, these theoretical proposals tend to blur the analytical distinctions among different dimensions of neoliberalisation. In particular, the notion of commodification has been applied as a synonym of the whole process of neoliberalisation, as the common denominator of the economic effects of privatisation or as the specific descriptor of processes of pricing previously unpriced goods.

As we saw, the organisational and operational reforms of public provision have a distinctive connotation which is, in my opinion, best captured by the threefold notion of depoliticisation. I propose to theoretically distinguish these set of effects from the —interconnected but analytically different— expansion of markets into areas which were previously presided over by different theoretical, institutional and organisational regimes.

In the context of public service provision the process of market expansion can be further specified in a two-fold manner: the erosion of the epistemological justification for the existence of non-market mechanism of production and delivery and the practical connection of public services to capital accumulation, via the introduction of opportunity for profitable investments.

The two dimensions are quite obviously interconnected. Their temporal and spatial coordination is, however, far less obvious. The conditions for profitability may exist in practice in a context that is epistemologically committed to recognise an alterity between market and non-market actors and mechanisms of provision. Conversely, the theoretical ground for extending market provision to public services may be established well before the theory is translated into practical measures. The latter case seems to fit the historical evolution of advanced capitalist countries around the 1960s and 1970s.

The extension of competitive markets in the production and distribution of a wider range of goods subverted the prospected growth of coordinated and centralised economies which hovered over the post-war boom. Despite being one belief characterising —a rather determinist strand of— Marxism, the prediction of a future where highly regulated monopolies and a growing SoEs sector would rule out competitive markets had currency among economic professionals and politicians in the first decades after WW2 (Howard and King, 2004).

The economics imperialism which has characterised the refoundation of professional economics after the demise of the neoclassical/Keynesian synthesis represents the first dimension of market expansion. Fine mantains that «economics imperialism is based upon an extreme form of economic reductionism of the economic *and* social to the incidence of, and response to, market, especially informational imperfections» (2004, p. 109).

Foucault's insight on the role of the Chicago School, and particularly of Gary Becker, in translating several social phenomena —pertaining until that point to the repertoire of other disciplines, and particularly sociology— into the conceptuality of (micro)economics is particularly useful to trace the genealogy of this phenomenon.

The second, certainly well-established in the critical literature, mode of market's expansion is the creation of the conditions for profitable deployment of private capitals into areas previously not included in the set of market transactions.

The crisis of the 1970s was previously characterised as a crisis of the accumulation regime. The ways out of the impasse, as previously noted, entailed the removal of internal barriers to accumulation, which were crystallised in the mode of regulation of societal interaction. A second powerful lever for relaunching the rate of profit was the extension of the new strategies of accumulation to the natural domain, brought the Marxian notion of primitive accumulation back to the centre of critical geographical discourse, in the modified form of the "accumulation by dispossession" proposed by Harvey (2003). In Harvey's conceptualisation, the renewed exploitation of nature is but one among the different "fixes" applied to drive capital accumulation out of recurrent profitability crises. In its general definition, accumulation by dispossession entails «the release a set of assets (including labour power) at very low (and in some instances zero) cost. Overaccumulated capital can seize hold of such assets and immediately turn them to profitable use. […] Privatization (of social housing, telecommunications, transportation, water, etc. in Britain, for example) has, in recent years, opened up vast fields for overaccumulated capital to seize upon» (*Ibid*., p. 149).

The process of commodification described by Harvey seems immediately connected to one side of Karl Polanyi's double movement. The processes of neoliberalisation can be broadly characterised as practical, partial and localised expressions of the tendency towards dis-embedding the economy from social control and extending the logic of self-regulating markets to realms previously subjected to other forms of institutional or collective control. In Polanyi's argument, an unfettered expansion of market logic is unsustainable, and will eventually generate a countervailing response. The countermovement, in the guise of social mobilisations, would compel the institutions to partially re-embed the critical socio-environmental relations whose commodification is threatening the reproduction of society, until a new balance between the two movements is struck. As Fred Block has noted: «market societies or "capitalism" is the product of *both* of these movements; it is an uneasy and fluid hybrid that reflects the shifting balance of power between these contending forces» (2008, p. 1).

However, as noted above, subsequent rounds of neoliberalisation have proved particularly resistant to the full effect of Polanyi's counter-movement, often through establishing "ambidextrous" policies «managing the costs and contradictions of *earlier* waves of neoliberalization» (Peck, 2010, p. 106).

3.5 Financial turn

The rise of the neoliberal paradigm corresponds to a shift in the business practices of major corporations and in the underlying economic model of the successful capitalist enterprise. Firms devote increased attention to engaging with structured finance and to improving the market valuation of their own shares, through questionable tactics such as stock buyback (Lazonick, 2012). Both the relative dominance of finance over productive capital and the proliferation of financial assets, instruments and trading firms should be interpreted as elements of the financialisation of the economy which underpins neoliberalism (Fine *et al.,* 2016). I will later discuss how high levels of both dividend payments and corporate debt characterised the financialised English and Welsh water and sewerage companies.

A second powerful trend is represented by the emergence of complex financial instruments, which allows to transform existing liabilities into tradable assets. This new class of asset, collectively called Asset-backed securities, was the leading actor in the financial collapse of 2008. I will briefly touch upon them in Chapter 4.3.

The emergence of the financial sector on the stage of economic life is hardly a new phenomenon. The growth of financial activities had characterised the expansion of capitalist economies at the during of the twentieth century, marked by first order financial innovations such as joint stock companies, options and futures trading. The separation of ownership of capital from the management of the productive processes constituted a central point of Schumpeter's theory of capitalist dynamic development.

However, the quantitative expansion of financial markets since the inception of neoliberalism —which has surely been remarkable in terms of share of global GDP— is accompanied by 1. the qualitative extension of financial relations into socio-economic areas previously alien to them, and 2. the qualitative transformation of the rules and logic of productive and reproductive relations by financial capital.

As John Bellamy Foster (2007) noted, in the new configuration of financial system, the monopoly-finance capital in his words, the relevance of corporate financial activities blurred the distinction between traditional financial actors, i.e. the banking groups, and non-financial actors.

Expanding on the same insight, Lapavitsas (2011) underlined two additional foundational shifts connected to present-day financial environment. First, corporations have become apt to operate directly in financial markets, and have even eroded monopolistic operations of the banking system such as lending to households. Second, households have been exposed to a larger and more pervasive presence of finance, especially in the form of credit relations, during their socio-economic life.

In the public opinion and some academia alike, financial activities are often contrasted to the real activities undertaken by economic actors. It seems useful to briefly problematise this terminological choice.

The conceptualisation of non-financial activities as "the real economy" may run the risk of adopting a too narrow understanding of capitalist production. If financial operations are portrayed as unreal, abstract or ephemeral activities, we risk to downplay the extraordinary efficacy that this purportedly illusory form of economic interaction has on society. After the extraordinary growth of financial markets, what Toporowski (2000) has correctly defined «financial inflation», finance has permeated the economic realm. Both production and consumption of goods are today dominated by financial imperatives. The proliferation of investment strategies and financial assets has changed the trajectory undertaken by productive sectors for earning a profit. Conversely, the private and state consumption became embroiled with a plethora of debt instruments, ranging from petty credit line to household to the trade of structured debt instruments.

Moreover, as convincingly argued by *post-operaisti* among the others, the sustained conversion of economies to a digital —or knowledge— basis seems to blur the distinction between real economic activity and its phantasmagorical counterparts. A business producing a digital commodity, such as the software controlling automation for industrial production, is entering the system of exchange under the same premises of a firm supplying material commodities. In this sense, opposing financial economy to the real economy tends to create a fictitious analytical separation between a simple, tangible and non-financial economy and an irrational, immaterial financial one.

Employing this binary opposition without elaborating its limits, further on, may risk to theoretically concentrate the inconsequential, fetishistic features of the capitalist mode of production into the sole financial sphere, scraping them out of any other industry. This is not to say that finance does not exhibit a degree of sophistication which put it at odds with the common-sensical understanding of economic life.

The definition of finance as a distinct and largely autonomous realm misses the dynamic and processual feature of financialisation. The very same companies engaged in real economy are the main actors on the stage of finance, substituting productive means of revenue generation and traditional credit relations with new strategies on the financial markets.

The exploration of financial relationships expanding in very "traditional" economic sectors such as utilities may benefit from a sketchy subdivision of the broad field of inquiry which has been tagged as financialisation.

The heterodox approaches to economics have produced a substantive corpus of theoretical and econometric studies on the phenomenon. The three main areas surveyed by the literature are 1. the impact of financialisation on growth, 2. the growth regimes emerging after the 1980s and 3. the distributive effects of financial capitalism over social wealth. Albeit a comprehensive discussion of these macro-themes is exceeding the scope of this study, I will consider in some further detail the first of these features.

Orthodox economics stressed the allocative superiority of open financial market on domestic market with a degree of capital controls. A tenet of the literature has been for long time the correlation of financial market openness with an increase in the gross fixed capital formation, as in the renewed investment flow after the abandonment of capital controls during the 1980s.

However, empirical results regarding this correlation remains mixed and contented. The expected productivity surge related to the increasing financial capacity deriving from capital market openness and interconnectedness has scattered empirical manifestation. If there is not a clear-cut growth effect of financial market liberalisation on productive activities, the second-best justification of financial openness is the allocative efficiency of capital markets. In particular, the plenitude of information presented to investors in a well-developed financial market allowed for the superior identification of mature industries, where the prospective productivity growth is low, and more profitable new industries. In other words, if an open financial market does not ensure a higher level of fixed capital formation —i.e. a higher rate of capital accumulation— it does help discriminate between profitable and unprofitable investment destinations.

The findings of Duménil and Lévy (2011) reinforce the thesis of a limited role of finance on the growth of productive investments. Taking the rate of fixed capital formation as a proxy indicator for capital accumulation, the authors showed (2001; 2004) that the it is correlated with corporations' retained earnings, i.e. that they prefer to invest own capital where possible in the risky activity of fixing capital in a productive investment.

The dynamic of the US economy between the 1960s and 2000s, detailed by Duménil and Lévy (2004), shows how the relation between the non-financial and financial sector evolved throughout the period. The Fordist business environment was characterised, in its normal configuration, by low interest rate, and the regulated financial sector was on average less profitable than the non-financial corporations (NFCs). The sharp rise of interest rate, following the so-called

“Volcker’s shock” in 1982, set the stage for a radical change in the profitability of the two sectors. Not only the profit rate of financial industries grew relative to the NFCs, so that its weight over the total US GDP more than doubled in the neoliberal decade; but the share of financial activities undertook by NFCs had a sharp increase. Orhangazi (2008) tested econometrically the tendency of NFCs to shift investment from productive to financial activities. The author offers a review of two assumptions regarding the impact of financialisation on the propensity to invest. The rising mass of financial investments by NFCs, and their net credit position on the financial markets, can appear as an unproblematic shift from traditional funding strategies —such as bank credit and retained earnings— to stock market financing. This way of reasoning is challenged by several observations. The proportion of gross investment and gross business saving (net of interest) remained stable over the period. In US, gross business savings were above 100% of gross investment. In other words, consistently with Duménil and Lévy findings, investments have been carried out through the portion of the retained earnings rather than through external finance. The question remains: why NFCs are engaged in substantive financial transactions —and acquired sizable debts?

The “financial inflation” hypothesis is a good candidate for explaining the phenomenon. The decoupling of financial activities and funding of new (non-financial) investments may reflect the preference for re-investing financial capital in “inflated” financial markets, with the prospect of short-term capital gains (Toporowski, 2010).

The theory of financial inflation, which stems from the contributions of economists as “heterodox” as Minsky and Keynes, rejected any equilibrium hypotheses of financial market. In opposition to neoclassical models of financial assets’ value over time, in which future prices can be determined by the average past price’s variation of stocks, capital market inflation is a non-equilibrium theory of financial dynamics. Keynes’ “beauty contest” view of financial assets evaluation assesses that prices reflect a third-order (speculative) expectation: a trader’s expectation of the average traders’ expectation about the average expectation of asset value, three steps removed from any underlying property of the asset.

The thematisation of financial structures advanced by Minsky, on the other hand, describes three types of financial investments: hedge, speculative, and "Ponzi" financing. The characterisation is guided by the type of financial commitment entailed by the investment, and the degree of fragility it carries onto the financial system. In simple terms, a financial structure implies commitment to future payments to be covered by the cash inflow generated by the newly acquired and owned assets (Toporowski, 2000). Market actors commit part of the stream of future payments deriving from owned an asset to repay the liabilities they incurred for financing the acquisition of that asset. In a hedge "position", future payments exceed future liabilities. In a speculative "position", future payments in the short-term fall short of short-term liabilities, but the future payments in the long-term are expected to be sufficient to cover the original liabilities and the cost of refinancing short-term exposure. In "Ponzi" financing, on the contrary, the future revenue stream is insufficient for paying the original liabilities or the newly incurred debt. The "Ponzi" actors need to continuously refinance by new borrowing or liquidate part of their assets for repay the accumulated debt. The asset inflation hypothesis combines the (speculative) over-evaluation of assets deriving from "beauty contest" evaluation with the financial fragility portrayed by Minsky. A sustained increase of net inflows of capital in financial markets over time leads to the inflation of the value of financial assets. Since the value of owned assets keep increasing, and thus the expected proceedings from their reselling, new borrowing for acquiring new assets is justified. The financial structure progressively shifts from hedge to "Ponzi", augmenting the systemic fragility. A limited slump in assets' value can trigger a chain-default of "Ponzi" positions, and then propagate to apparently more sound investment position. This is the skeletal form of an asset "bubble". Long-term debt instruments (e.g. government bonds) which trade above face value before maturity date, and irredeemable assets (e.g. common stocks) are the most susceptible to a large value increase as result of financial inflation.

The influence of inflated financial market on investment decision by individual firms, hence on the aggregate level of capital accumulation, remains a central element to be investigated.

The prospect of high returns from financial investments may induce companies to deploy borrowed resources for the acquisition of liquid, tradable and over-valued financial assets, and use own reserves for the riskier —in term of capital immobilisation and expected gains— expansion production. The proportion of liabilities in NFCs' balance sheets committed to financial assets may be a reliable indicator of the systemic financial fragility.

There is a second effect of the rise of financial operations on firms' decisions. This is, financialisation changes the approach to management, by incentivising managers to increase the short-term value of the firms' stocks and hence maximise their returns from stock options. This latter effect is inscribed in the broader phenomenon of "shareholder value", i.e. the management practices that tend to favour the interests of stock investors over the long-term perspective of industrial growth. The practice of share buybacks, i.e. a corporation repurchasing its own shares for increasing their market price, came to prominence in the 1990s.

In the momentous phenomenon of hostile takeovers in the 1980s and early 1990s, low share prices incentivised the bids over companies' ownership. Share buybacks were devised as a defensive mechanism, among the other (e.g. shareholder rights plan), for preventing an unwanted merger. However, it became a powerful lever of financial gains for investors and managers, which receives the largest part of their variable salary as stock options. Shareholder value represents an endogenous incentive to financialisation of firm's activity, or the shift from long-term investment strategies to short-term financial gains.

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4 Neoliberalisation of water provision

As Bakker has exhaustively demonstrated, the «‘‘state hydraulic’’ paradigm of water management [was] characterized by: planning for growth and supply-led solutions, with an emphasis on hydraulic development as a means of satisfying water demands; a focus on social equity and universal provision; command-and-control regulation; a discursive representation of nature as a resource; and state ownership and/or strict regulation of water resources development and water supply provision, based on a desire to provide sufficient quantities of water, where and when needed, such that economic growth could proceed unconstrained» (2005, p. 546).

The crisis of Fordism caused upheaval in this paradigm of water management. The inflationary crisis and the subsequent tightening of public expenditures under monetarist principles in US and UK rendered direct public management much less appealing. Both the US water sector —where a residual private provision lasted during Fordism— and UK experienced a turn towards market-oriented reorganisation (Harris, 2013). In UK, in particular, the protracted 1970s crisis left a landscape of chronically underfunded public water providers and worsening environmental impact. The water and sanitation authorities entered the scope of Thatcher’s government privatisation programme.

Before turning to discuss in greater detail these developments, that constitutes one backbone of *water sector neoliberalisation*, it is useful to briefly survey the broader debate on the relationship between environmental goods and neoliberalism, often referred to as *neoliberal environment*, developed by scholars in the critical geography and political ecology traditions.

The debate on neoliberal environment ensued from the recognition that the neoliberal turn of the 1980s did not equate to the abandonment of environmental regulation, despite Reagan's pledge to reduce environmental regulation was an integral part, if often overlooked, of its supply-side economic strategy. Rather, the regulative framework underwent a significant reformulation, from the so-called command-and-control approach —with a top-down determination of environmental standards (e.g. maximum pollution level) and sanctions against infringement— to market-led responses to environmental degradation. Economic incentive-based approaches, relying on the establishment of market mechanisms for pricing and trading emissions and conservation efforts started experimentation — e.g. cap-and-trade regulation for CO_2 emissions such as the European Union Emissions Trading System.

From the late 1990s the market-led experiments were normalised in a more comprehensive policy blueprint, coupling environmental protection and economic growth. Sustainable development became the new pivot of mainstream environmental economics and policymaking (Hopwood et al., 2005). In the first decades of 2000s this blueprint was confirmed as the preferred option in official international organisations strategies (UN, 2012), and it entered the field of portfolio and direct investments (see *inter alia* de Pee *et al.*, 2018).

The marketisation of environmental preservation has an ideal and ambitious example in the schemes for enhancing environmental services. Contrary to the trade-based conservation of directly observable quantities (e.g. tons of carbon emission in carbon trading), payments for environmental services aims at creating a market for the holistic defined benefits accruing from conservation of natural habitat or environmental features (e.g. wetlands, rainforests, savannah).

An ecosystem is subjected to the cycle stylised by Gómez-Baggethun and Ruiz-Pérez (2011) in four phases. First, disperse ecological entities and their interrelation are framed as a stream of services producing quantifiable effects on societal welfare. Second, a pricing technique is employed for determining the dollar equivalent of these effects. Third, property rights are attributed —where they were not already— so that an economic transaction between buyer and seller can take place. Fourth, an institutional structure is created so that sales can be carried on, or in other words a market for commercialisation is established. Two interrelated economic principles are here at work: polluter-pays (accounting for negative externalities), and principle of stewardship (accounting for positive externalities). The right to consume ecosystem services is granted if the quantity consumed is offset by the purchase of credit generated by conservation efforts. The positive externalities generated by conservation are thus economically rewarded, incentivising owners of service-generating environmental goods to preserve them[11]. Scholars and activists have voiced their criticisms of these prescriptions for sustainability on a number of counts, which insist on coupling the present path to economic growth to the preservation of the environment.

McCarthy and Prudham (2004) made a compelling case for considering neoliberalism an environmental project. The authors argued that neoliberalism entails 1. a shift in the cognitive and practical interaction with biophysical nature which 2. underpins the post-Fordist social regulation; and 3. induces the emergence of (radical) environmentalism as the most serious challenge to neoliberal hegemony.

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[11] Despite the theoretical diffusion of the payment for ecosystem services and the practical implementations globally, the application to water and sanitation provision is still quite marginal.

Watershed investments capture the broadest definition of ecosystem services connected to the water cycle and aquatic habitat. These systems of re-payment for offsetting the consumption of water services range from public subsidies to improve water-impacting productions —mostly agriculture— to public or private restoration projects and water credits trading.

The markets for trading in watershed are still fairly underdevelopment —at least when measured in money value— despite the sector was arguably one of the first adopting ecosystem credit schemes, with wetland banks developing in US already in the 1990s (Robertson, 2004).

Globally, watershed investments were estimated at $24.6 billion in 2015 (Bennett and Reuf, 2016), roughly the dollar equivalent of El Salvador's GDP. As for Europe, the second highest user of watershed investments after Asia, the mechanisms totalled €5.7 billion (Bennett *et al*., 2017). It is worth noting that publicly funded programs had the lion's share of the total, estimated globally at $23.7 billion (Bennett and Reuf, 2016, p. 13). Typically, the public investments in watersheds consist of subsidises to landowners for the protection and restoration of water services on their land, e.g. by greening agricultural production.

Direct users of water resources, such as water utilities, enter watershed investing as a complement to their "grey" investments, e.g. for maintaining the quality of their sources or reducing the incidence of floodwater. In Asia, where participation of direct users is the highest ($555 million), public authorities such as municipalities are still the top contributors to the schemes. In Europe, water companies (private, public or PPP) account for the largest contribution to user-driven watershed investments, which stand nonetheless at a modest $33.3 million (Bennett *et al*., 2017, p. 14).

Water credit markets remain a mostly US-centred phenomenon, with $20.8 million out of the global $31.8 million traded there. Despite being an expanding class of assets, water-related ecosystem services are still a niche market sustained by public spending.

Neoliberalism, in their view, derives its environmental connotation directly from classical liberalism's relationship with natural entities. In overcoming the feudal rigidities, nineteenth century liberalism sought to free up natural resources from their customary constrains and put them to productive uses. The enclosures of communal land and forestry, a central theme of Marx's enquiry into the origin of capitalism, are a historical premise of the current phase in which property rights are established over previously communally owned or non-proprietor natural entities.

Reagan's administration rolling back Keynesian environmental regulation is in McCarthy's and Prudham's opinion as crucial for the development of neoliberalism as the confrontation with organised labour.

Influenced by the Polanyi's double movement, the authors conceived of the creeping expansion of the market into the environment, and the subsequent transformation of natural goods into fictitious commodities, as necessarily producing counter-forces to its own development. Struggles over environmental degradation were to become the Achilles heel of neoliberalism.

The debate on degrees and the modalities in which neoliberalism constitutes an environmental project was supported by the vast literature on cases of environmental neoliberalisation. The empirical studies aligned a wide range of resource- and location-specific examples of neoliberal environmental governance. Noel Castree's (2008a; 2008b) evaluated this scholarship in the attempt of situating the various empirical studied into a common frame. Defining commensurability across the different case studies proved uneasy. The work of synthesis is, as Castree put it, taken between the «Scylla of monolithic, abstract understandings of 'neoliberalism and nature' and the Charybdis of empirical studies that do not admit of wider comparisons or connections» (2008b, p. 158). Castree is operating with a working hypothesis of what constitutes neoliberal environmental governance.

The point of departure is a relational definition of the nexus society-environment, so that the biophysical nature is not a passive recipient of societal activities, but a complex interrelation between social practices and environmental entities that materially and discursively underpins societal sustenance. The political ecological approach deployed by Swyngedouw (2004) in his enquiry into the water provision in Guayaquil, Ecuador, exemplifies the proceedings of the critical debate on socio-natures and the metabolic relation between society and the environment.

The episteme on nature based on the relative separation between social and natural phenomena is contrasted with a conceptualisation of the relationship between human and non-human worlds as an immanent and necessary metabolic exchange[12]. Historical societies are always involved in the transformation of material elements into new useful forms: this constitutes the basis for social reproduction. The outcomes of this process are material products imbued with meanings —about e.g. their availability, making, or mode of consumption. The «production process of socio-nature embodies both material processes and the proliferating discursive and symbolic representations of nature» (*Ibid.*, p. 21).

Socio-natures are thus the foundational components of social reproduction, rather than a pool of external resources to tap into. An extensive body of literature, drawing on Polanyian and Marxist themes, focused on the impact of the capitalist mode of production on the socio-natural metabolism, highlighting that the increased pressure exerts on the environment constitutes a relative limit to the expansion of material production. The socio-natural relationship becomes increasingly strained: it represents a thorny site for socio-environmental crises' formation and for their diffusion.

The neoliberal phase of capitalism, in Castree's view, tends to incorporate the (partial) solutions to socio-natural unbalances in the circuit of capital accumulation. The neoliberalisation of socio-natural relationships represents a *socio-ecological fix*, in the two-fold meaning that 1. it constitutes a purportedly superior mechanism for environmental preservation, based on economic incentives and transactions, and 2. it supports the extension of market relations to previously non-marketed socio-natures. In the latter sense, neoliberalisation of nature may offer a countervailing tendency to the recurrent crises of capital profitability, allowing for the extension or the intensification of capital deployment to the production of socio-natures.

[12] Foster (2000), drawing on Marx's fragmentary contribution to the understanding of socio-natural relationships, proposed the concept of *metabolic rift* for characterising the rupture in the socio-environmental interaction brought about by capitalist mode of production.

This theoretical characterisation of nature's neoliberalisation, however, is translated into reality through contingent modalities, diversified according to resource- and site-specific conditions.

Bakker (2009), discussing Castree's important contribution, noted that the attempt to unify the empirical researches on neoliberal environment can follow two strategies. The researchers can take a single environmental good as a point or reference, and survey the variegated neoliberal strategies in relation to different geo-institutional circumstances (vertical axis). Or they can scrutinise the diffusion of markedly neoliberal reforms —e.g. market for trading quotas of natural resources— to different environmental goods (horizontal axis). Furthermore, Bakker stresses that intrinsic barriers exist to the unification of the research agenda on neoliberal environment. The relative specialisation and disconnection between empirical researches stem partially from the rejection of an abstract and unifying concept of nature —which would mirror the mainstream economic accounts of natural entities as homogeneous environmental resources.

Critical geographers had recognised that different socio-natures are liable of a variety of neoliberalisation strategies, because the material and cultural characteristics of environmental goods pose distinct problems and call for specific —and at times divergent— neoliberal fixes (Bakker, 2010).

Building on her extensive research on privatisation of the water sector, Bakker warns against conceiving of the creation of economic goods out of environmental entities as an unproblematic and easily achievable task. Certain goods, such as water and sanitation, may escape «the application of mechanisms intended to appropriate and standardize a class of goods or services, enabling these goods or services to be sold at a price determined through market exchange» (Bakker, 2005, p. 544).

The complete commodification —according to Bakker's conceptualisation— of water resources may prove unachievable, while public divestiture from the sector or the managerial adoption of commercial principles (e.g. efficiency) and aims (e.g. profit-maximization) may proceed unabated.

Scholars researching neoliberal environments should take into account the unfinished business of commodification, due to "uncooperative commodities", and regard these processes —very much in a Polanyian fashion— as incomplete, contested and revertible.

The critical geographers' investigation of the of neoliberal environment bears the fruit of characterising neoliberal variegation as a product of the material and cultural specificities of different socio-natures as well as of geo-institutional and scalar diversification. Bakker's call for caution about the characteristics of different socio-natures, and their impact on neoliberalisation, is an important methodological clarification for the researches on neoliberal environment. However, a strong version of her argument risks to render the concept of neoliberalisation —a distinguishable market-oriented governance of socio-natures— devoid of meaning. The research design described by Bakker as vertical —focusing on one socio-natural relation and enquiring into the geo-institutional variegation of its neoliberalisation— may prove successful in detecting the common modalities of procurement, management and regimentation of socio-natural resources.

Existing processes of neoliberalisation in e.g. structuring carbon markets, privatising water provision or kick-starting sustainable transportation are embedded in sectoral specificities as much as they are rooted in contextual scalar and spatial dynamics. Envisioning neoliberalisation strategies within the boundaries of an industry allows to identify the actors —endowed with interests and ideas— the operational and business logic of a specific sector. Focusing on the sectoral regulative framework and accumulation regime may provide the foundation for meaningful comparisons across the geo-institutional variegation.

On the other hand, this research strategy implies adopting a weaker version of the neoliberal environment hypothesis, so that 1. neoliberal environmental projects may be closer in kind to non-environmental ventures —sharing similar type of investors, funding strategies, profit opportunities, etc.— and consequently 2. the researches focusing on the horizontal, cross-sectoral, dimension of neoliberal environment may need to reinforce their epistemological premises. For example, the modalities of administering prices for water provision and for pollution trading, despite representing expressions of a common neoliberal epistemic terrain, take substantially different forms and practical realisations. Reconstructing the common ideational backdrop of the two neoliberalisation processes is a precious epistemological work, which nonetheless may prove not strictly relevant to the understanding their actual functioning. To put it bluntly, the neoliberal environment may turn to be more about the social relation of production and reproduction of specific socio-natures than about the broader relation with the non-human world.

A relevant example of vertical, commodity-specific method for the study of environmental goods' provision can be found in the System of Provision (SoP) approach. SoP was originally devised as a consumer theory, alternative to mainstream economics rational consumer theory, for the study of the mode of provision and consumption of different commodities. SoP takes explicitly issues with the homogeneous character of commodities and the purely quantitative subjective utility calculation of rational consumer theory. The kernel of the approach is the immanent relationship between production systems, differentiated among families of commodities and shaped by historical material specificities, and the modes of consumption —perfused with cultural content— they are connected to.

A system of provision is the interlinked set of material and cultural practices that composes the structure of production, distribution and consumption of a specific commodity, or group of commodities (Bayliss *et al.*, 2013).

The provision system of a good is the articulation of different socio-economic actions —in stylised terms financing, production, distribution and consumption— carried out by potentially different actors. In this «comprehensive chain of activities between the two extremes of production and consumption, each link […] plays a potentially significant role in the social construction of the commodity both in its material and cultural aspects» (Fine, 2002, p. 98).

By the same token, a SoP is connected to others in various points, because e.g. it is dependent from other for the supply of means of production, or its financing depends from a network of financial instruments and institutions. On the consumption side, exogenous and localised socio-cultural elements —e.g. ethnicity, income level, gender, etc.— influence different modes of consumption inside the same SoP. The limits of a specific SoP are thus mobile: it can be analytically stretched or condensed according to the scope and the interest of researchers employing the approach.

According to proponents, SoPs offer an epistemological vantage point for the study of public sector system of provision (PSSoP) too. Fine (2014), one of the earlier developers of the approach, takes issue with the welfare regime literature as the most suitable approach to the interpretation of public services provision. Fine's critique is strictly related to the analysis of the shortfalls of the varieties of capitalism literature presented above (see Chapter 2.1). Ideal-typical regimes of welfare, in particular, suffer a bias towards considering national systems as the relevant units of enquiry —overlooking both scalar and sectoral differentiations. Secondly, and subsequently, the approach is ill-equipped for explaining changes occurring incrementally inside an ideal-type, eventually resorting to the notion of hybridity for explaining the deviations.

The notion of neoliberal variegation, as we have seen, helps superseding the rigidity of typification. The SoP approach offers a useful conceptual grid for researches looking into policy variegation. The focus on a single, if ductile, structure of public service delivery allows for the detection of a greater variety of public provision modalities inside the same national system. Secondly, the attention devoted to the articulation of provision, and on the relevant links into which the continuum between production and consumption can be broken down, allows for a more nuanced charting of transformative processes and their enactors.

In other words, public and private provision may be alternative geo-institutional modalities of supplying a good or service, or they may constitute different steps and interlinkages in a single SoP. Certain public goods —education, health, social services— are delivered by a PSSoP which radically differs from private provision in normative principles (e.g. universal access), operational logic (e.g. public administration procedures), funding method (e.g. general taxation) and culture of consumption (e.g. entitlement). This type of PSSoP may be limited to a subsector, deemed in need of public protection, of an otherwise private sector-led SoP —as it is often the for the housing sector. Finally, public delivery may be interconnected to the private sector in various points of the (PS)SoP, so that the alterity between the former and the latter is strongly reduced —this is the prevalent case for utilities (Fine and Bayliss, 2016). The SoP approach allows for a more variation-sensitive application of the conceptual unity of accumulation regime and mode of consumption proposed by the regulation school, incorporating elements of post-structuralism, without confining itself to national ontology typical of the varieties of capitalism approach —and welfare regimes literature, in relation to public provision.

On the other hand, through the thematization of the social impact of provision, and the reciprocal social conditionalities imposed onto it, the approach is broadening the scope of sectoral studies outside the narrow focus on firms' performance and industrial policy.

The SoP approach has been applied to the water and sanitation provision, with a specific attention paid to the subset of water service delivery for final consumption. The SoPs connected to freshwater are manifestly many. The natural ubiquity of water across the spectrum of human needs, both in production and consumption, and the different the sources, treatment, distribution, pricing, etc. for these two macro-areas of water uses are often distinct enough to induce the identification of different systems of provision.

Even in the narrower field of water provision for final human consumption, two interrelated but factually distinct SoPs can be described: bottled water and tap water (and sanitation). Production and consumption in the two SoPs are widely different when a fully developed and properly maintained piped water system provides water services for domestic and commercial uses —including cooking, personal hygiene, cleaning etc.— while bottled water is limited branded alternative.

In situation of underdeveloped network coverage and failing or contaminated water provision, such as the condition of the city of Guayaquil described by Swyngedouw, the two SoPs tend to overlap for certain actors —e.g. low-income households and water vendors. Private water tanks and canisters substitute piped provision for the underserved, or disconnected, marginalised urban communities.

Further complications regarding system of water delivery are represented by differential treatment of large urban and small or rural communities, with the latter often considered residual customers by water providers in the same SoP.

These variations are in part the consequences of material peculiarities of water. On the side of production, water is a bulk good, i.e. it is costly to transport relative to selling price. Abstracting, storing and distributing water from the closest drainage basins is preferred to long distance transfer. The infrastructures required for the collection, purification, capillary distribution, and sanitation of wastewater make the SoP highly capital intensive. Investments are channelled in fixed capital with a long useful life.

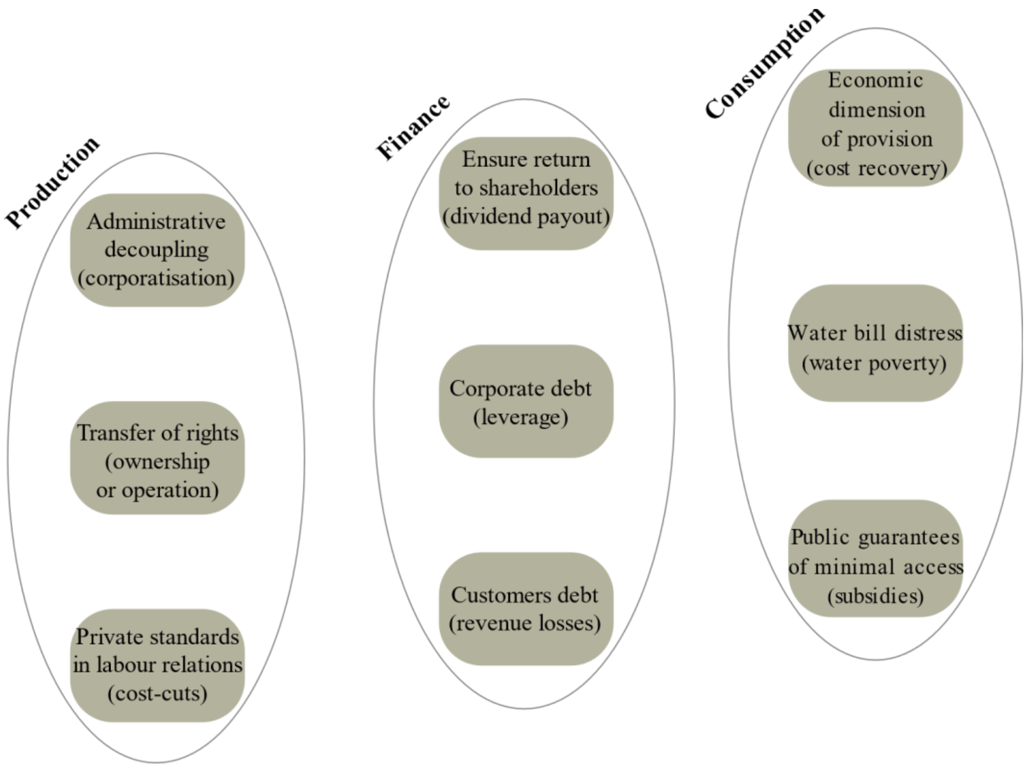

Figure 4.1. Water SoPs: dimensions of neoliberalisation.

Source: author's elaboration on Bayliss (2016).

The adoption of SoP approach to the study of water services provision has led to a number of national case studies focusing on the key joints of the sectoral structure of production and consumption. Bayliss (2016) offered an example of comparative analysis between distant geo-institutional water SoPs. Comparing the case of water utilities in England and Wales to provision system in Poland, Portugal, Turkey and South Africa, the author traced a coherent research agenda for the understanding of trans-national trends and local variegations of the water sector.

Bayliss lists two broad processes of organisational restructuring connected to the neoliberalisation (*corporatisation* and *privatisation*), which affecting the production side of the (PS)SoPs by transforming the operational logic and labour relations of providers. The finance side of the (PS)SoPs is another crucial site of neoliberalisation, with the recourse to private shareholders and debt to sustain capital investments. The mode of consumption of water services is altered by the adoption of pricing strategies which prioritises the economic dimension of water provision over the socio-political goal of universal access. The ensuing water bill distress is tempered, in some cases, by regulative intervention for granting access to a minimum amount of water and sanitation.

The role of public bodies, both national and international, is found to be still relevant —despite the insistence on private initiatives and investments. States retain regulative powers, often caught between the goal of enabling market conditions and of ensuring socio-political stability through minimum equity of access. Both international developmental bodies, transnational organisations and nation states compensate for gaps in private financing of risky or less profitable ventures.

The results of these comparative research can be formalised into a first analytical structure for enquiring the neoliberalisation of water (PS)SoPs (see Table 4.1).

The analytical framework advanced in this work is an elaboration of the original research strategy developed by the SoPs proponents. The construct attempts to capture neoliberalisation as the driver for a deep and significative shift in provision, which moved the delivery of water services away from welfare services and towards becoming a proper business venture.

On the side of production, I propose three broad dimensions which describe the processes underpinning the variegated neoliberalisation of water provision: (a) the de-politicisation of the choices regarding this basic social good, (b) the extension of markets into water services, and (c) the financialisation of WS operations.

a. The neoliberal water governance mirrors the threefold definition of de-politicisation proposed by Wood and Flinders (2014). Keeping regulatory authorities and providers at an arm’s length from political control (Furlong and Bakker, 2010), redefining the conditions of WS supply in terms of business duties and customers rights (Page and Bakker, 2005), and placing financial and physical constraints at the centre of the policy discourse (Swyngedouw, 2013) are sectoral examples of Wood and Flinders’ governmental, societal, and discursive de-politicisation, respectively.

b. Transferring the ownership of the productive assets (catchment basins, treatment plants, network) to the private sector is the most obvious tool for introducing market actors into water SoPs. However, the depoliticised public providers often adopt practices and goals which render them undistinguishable from their private counterparts. If enhancing revenues by minimising costs and taking advantage of the peculiar status of water among other commodities is a logical objective for profit-seeking privatised companies (Bond, 2010; Swyngedouw, 2009), it likewise represents a central tenet of the operational rationality of public corporations.

c. Finally, pricing and capital remunerating strategies allow for a substantive transfer of wealth from customers to financial stakeholders, as the long-lasting case of the privatised English utilities indicates (Allen and Pryke, 2013; Bayliss, 2016). The allotment of financial resources to high dividend payments for corporate shareholders (Loftus and March, 2015) has been questioned by advocates of more progressive water governance. Bondholders may nonetheless replace shareholders in exercising a degree of control over financial and operational decisions while obtaining stably high interest payments. For example, when the UK regulator cut prices for first time, privatised companies deepened their engagement with structured finance (Bayliss *et al.*, 2013). They increasingly relied upon the emission of securitised bonds, hinting at an emerging (private) debt-only model (Helm and Tindall, 2009).

As a precautionary note, before discussing these three dimensions in further detail, it is useful to remain the readers that none of the components of this analytical construct stands on its own. These three conceptual dimensions are conceived of as useful tools to break down the complexity of water provision reforms and their effects. Hence, they do not operate as independent layers, which may be added or subtracted from the wider framework of neoliberalisation. The model proposed here takes neoliberalisation as the product of the dynamics described by the three categories, which thus are anchored onto interdependent empirical phenomena.

This theoretical construct, helping to make sense of the neoliberal regime of service delivery, is not perfectly matching the variegated arrangements of water (PS)SoPs (McDonald, 2014). Nonetheless, it helps identify the areas where private and public-owned entities operate as isomorphic entities, when the latter abides by the tenets of neoliberalisation.

4.1 Depoliticisation: three-fold modification of system of provision

The critical literature on water provision widely noted that a central component of neoliberalisation of water supply is an alteration of the mode of provision, both at the theoretical and practical level. This transformation has been characterised, throughout this work, as a decoupling of water provision from the welfare system, at a time when the latter was subjected to the great pressure for the so-called fiscal crisis of the states.

The first set of measures related to this broad reconfiguration was the removal of water services from the administrative bodies in which they were inscribed (at the national, regional or municipal level) and their restructuring as autonomous sectoral system of provision. In simplistic terms, it can be said that this step corresponds to the creation of identifiable water public companies out of the public administration at large.

In the case of UK, which pioneered in 1973 the unbundling of public water providers from the administrative hierarchy in which they were inserted, the reform decoupled water services from local governments for constituting ten regional authorities overseeing the water and sanitation PSSoPs in its entirety. The modification of the governance structure —in the modern parlance— was more pervasive than a simple consolidation of administrative competencies.

The newly formed independent units had a ring-fenced budget —i.e. revenues, expenditures and investments pertained to each authority's balance, now separated by the general budget of local governments in which they were previously inscribed.

The capability of water authorities to access central government's loans was reduced, to foster autonomous financial sustainability of each venture. In a similar fashion, authorities were mandated to operate on a strict cost-recovering rationale. The latter objective implied the re-definition of the revenue targets to a higher level compared to the previous management under local governments —which could use their own resources, if any, and were granted an easier access to central government's funding. However, at least until the beginning of Thatcher's tenure, political concerns remained high about raising tariffs faster than the burgeoning inflation rate.

In order to ensure greater cost-effectiveness, the water authorities were restructures so that their internal organisation would closely resemble a commercial venture. Various levels of corporate management were introduced, with a greater attention paid to financial and planning functions (OFWAT-DEFRA, 2006, p. 18).

The consolidation of the water PSSoP became instrumental to the divesture occurred fifteen years later, since the water and sanitation sector was a readily identifiable autonomous asset to be removed from public control. At a more fundamental level, the 1973 consolidation allowed for a tighter control over the authorities' finance. In the period 1974-89 the debt —inherited from local governments— of the water authorities dropped substantially. This came at the expanses of the capital investments, which fell dramatically after the reform and were kept at a minimum level throughout the first half of the 1980s. Hassan (1998) has noted how, while the sector was experiencing infrastructural deterioration, the management was emphasising the cost-containing measures adopted as a sign of good governance.

The deterioration of physical assets —epitomised by the frequent collapse of water and sewage mains— and of basins' and shore-waters' environmental quality became one national cause of concern. Given the situation of underinvestment imposed over the PSSoP by *de facto* austerity, it is little wonder that the move towards privatisation of the water authorities was met with little public resistance.

In stylised terms, the unbundling of water services from the welfare system can be summarised by 1.the removal of water and sanitation delivery from the direct decisional and operational control of sub-national or national authorities, through the creation of ring-fenced providers bestowed with organisational and financial autonomy (Herrera and Post, 2014), 2. the subsequent redefinition of the organisational practice and operational targets of the newly created units so that they conform with the perceived superior standards applied by the business sector. This process can be defined as *corporatisation*, even if the ensuing organisational units do not acquire the legal status of state-owned public companies, since it re-orients the PSSoP towards a private sector type of management.

This process is not necessarily followed by the transfer of assets' ownership to private actors, in part or entirely, through various form of *privatisation*.

The latter concept is normally associated with the complete public divesture and subsequent transfer of assets to private ownership.

Full divesture, however, is far from being the only strategy of private participation in the water sector. Concessions of water delivery to private actors were a commonplace, as we have seen, before the Fordist era. They remained in existence, although minor in importance, through the period in the form of regulated monopolistic provision.

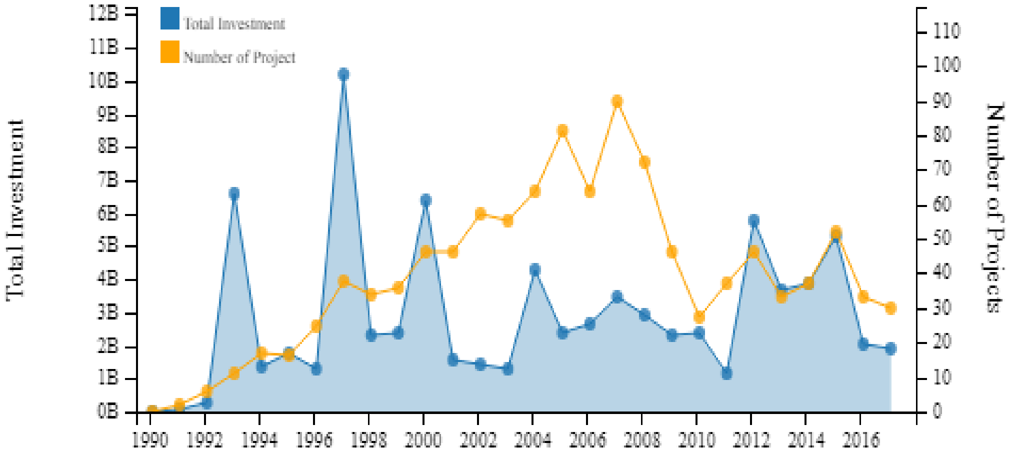

Figure 4.2. Number of PPP projects and dollar value, WS sector.

Source: WB

Privatisation, in the strong sense of the term, was touted throughout the 1990s as the most efficient management model, but its adoption was scattered and highly contested. It quietly slipped out of the international developmental agenda during the 2000s, as a consequence of its limited practical diffusion (Bakker, 2010). In a significant number of cases, maintaining or reverting to public management was preferred over transferring ownership or extending long-term concessions (Hall *et al*., 2013; Lobina, 2016).

The new model for the inclusion of private stakeholders into the utility sector took the form of public-private-partnerships (PPPs). The umbrella concept brought together the resurgent concession and management agreements with various forms of private participation to greenfield and brownfield investments.

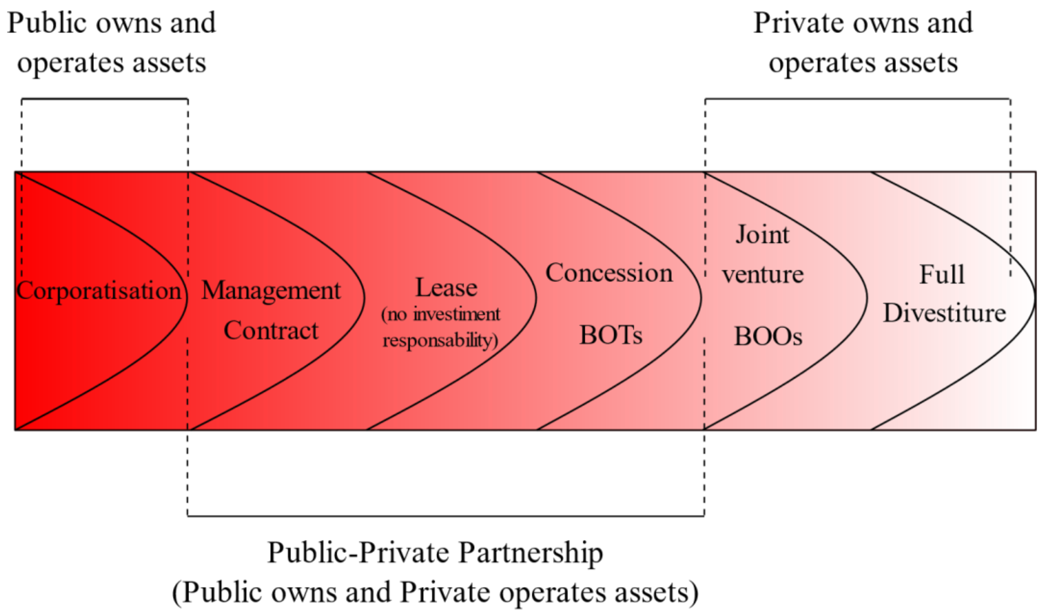

Figure 4.3. The continuum of water neoliberalisation.

Source: author’s elaboration on WB.

The schemes, variations on the Build-Operate-and-Transfer (BOT) model, are designed to attract private financial resources to the construction or refurbishment of assets by the means of fiscal stimuli (e.g. tax breaks) and the pocketing of revenues deriving from the asset’s operation —often guaranteed, i.e. integrated by public funding if they prove to be lesser than an agreed cost recovery threshold.

Incentive-based remuneration of the private contractor are common in management agreement too: here, the private company earns a yearly share of the revenues plus some sort of efficiency-targeted bonuses (e.g. for improving leakages repairing time, higher customers’ satisfaction, etc.).

The uneven landscape of private participation in the water SoP —comprising disinvestment, concessions, management contracts, BOTs and corporatisation— is an integral component of the variegated neoliberalisation of the utility sector. These different forms of private participation constitute, in my opinion, a continuum *within* the process of neoliberalisation itself (see figure 4.3).

The organisational change entailed in the reform of the provision of water from a welfare services to a utility enterprise can be better understood in the light of the three dimensions of depoliticisation.

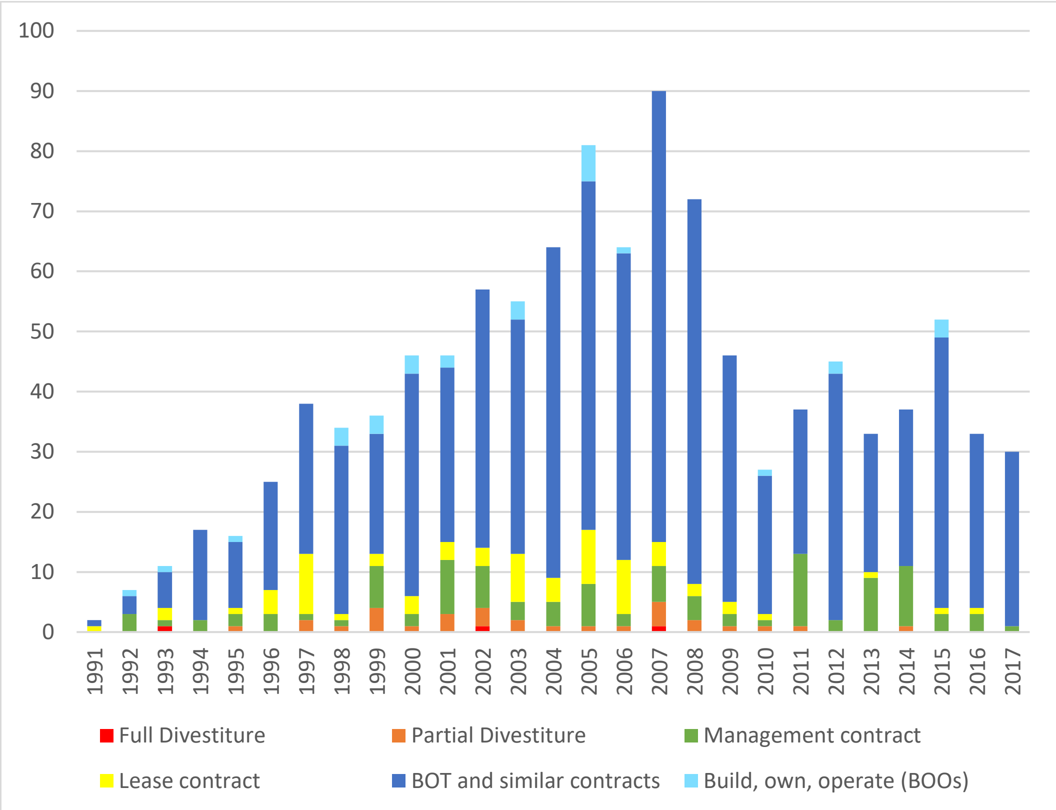

Figure 4.4. Number of PPP projects and type of agreement, WS sector.

Data source: WB

The elected officials may retain a degree of political control over the SoP, as it is even in the case of outright privatisation (through the oversight on sectoral regulatory authorities), while shifting the responsibility for crucial decision regarding material access to social rights to an independent corporation, acting in conformity to technical and economic rationality (governmental depoliticisation).

The providers are expected to maintain financial sustainability through a combination of cost saving measures – the outsourcing of main or ancillary operations (e.g. maintenance or customer care) and the implementation of cost-reflective prices (Boag and McDonald, 2010). In supervising the provision of service delivery, the political representatives adopt —more or less willingly— the view that their duty is primary to ensure the economic viability of service providers. As water pivot towards being an economic good, so the position of the beneficiaries shifts towards being pure customers. Provision moves from being a duty of the public provider to be a matter of private consumption of the household (Loftus and Budds, 2016). Societal depoliticisation takes place at this level. The transformation of water service into a businesslike venture entails the redefinition of citizens into customers privately purchasing a service. This does not mean, however, that low-income households are left without a safety-net.

Access to water is a sensitive issue, easily repoliticised by coalitions of local communities and activists. “Ambidextrous” social policies are established for the “poor” – often identified through means-testing – granting limited provision of water, possibly at lower standards (Hall and Lobina, 2007; Rusca and Schwartz, 2018).

The discursive depoliticisation of water provision can be described in similar multi-faceted terms. First, as the detailed analysis by Swyngedouw (2013) has shown, the discourse of scarcity acquires a central justificatory and displacing function in the discussion of water management models. The overarching nature of the discourse of scarcity is well attested in the literature and policy suggestions related to reforms of water provision. Nonetheless, this terrain of contestation is quite slippery. The deconstruction of the conceptual dimensions of scarcity needs to be careful enough to avoid the risk of downplaying a real phenomenon.

However, as noted by Bayliss 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» (2014, p. 35).

The trans-national agenda for water sector reform has been the characterised, since the 1980s, by a major redefinition of water services. International developmental organisations, and in particular the World Bank (WB), have sought to establish a new consensus on water management hinged upon the redefinition of water as a scarce (economic) good. In the parlance of the WB: «[o]bserving the waste and inefficiencies that have resulted from the frequent failure to use prices and other instruments to manage demand and guide allocation, the new approach stresses the importance of using decentralized implementation processes and market forces to provide water services» (1993, p. 23).

The reconceptualization of water (and sanitation) as an economic good by international organisation —as for example in the fourth guiding principle of the United Nations' *Dublin Statement on Water and Sustainable Development* (UN, 1992)— has since attracted widespread criticism for the underlying promotion of commodification in an essential socio-natural relation. Critical scholars have contended that stressing economic valuation and allocative efficiency of pricing over the distributional equity of socio-political management represents a major shift in the underlying normative principles guiding water provision. In particular, critical authors argue that the previous prevailing concept of fair water provision was hinged upon universal provision funded by household contributions based on income differentials —e.g. through flat or fixed component of rates calculated on the basis of property value.

4.2 Water as an economic good: expanding markets

The theory of efficient pricing, the identification of the actual level of cost to be passed onto customers and the introduction of competitive dynamics in the sectors: these are all examples of market expanding into water.

As noted above, the change of heart of international organisations about the most efficient management of water resources was motivated by —or justified in terms of— the perceived deterioration of political and physical infrastructure for service delivery. The persistent lack of access in developing countries and the financial difficulties of (public) providers in the developed ones was attribute chiefly to the underestimation of the economic dimension of water services. Water was assumed to have been under-priced, because the real condition of scarcity of freshwater sources has been overlooked. As a result, water SoPs were providing water services at less than their actual cost, facilitating wasteful uses of water and becoming increasingly underfunded. The need to fully account for the cost of water provision (*full cost recovery*), hence managing water as an economic good as well as an essential human need, became the pivot of the new consensus.

Full cost recovery has in time become a ubiquitous formula in the sectoral academic and policy literature. The definition of the formula is often omitted, possibly because it became so entrenched in water management parlance to be taken as self-explanatory. It is nonetheless useful to present a minimum definition of cost full recovery, to introduce the following discussion.

Full cost entails two dimension: the full economic cost of supply and the environmental cost of use. The first dimension can be subdivided in explicit and implicit costs. Explicit economic costs are expenditures incurred in supply, e.g. raw material, labour, leases. Implicit economic cost is the opportunity cost of capital, i.e. the minimum remuneration expected for justifying the investment in the activity (the sum of cost of equity and cost of debt at market rates). The supplier should thus earn at least what neoclassical economists call normal profit. The second dimension is composed entirely by implicit costs; hence, its calculation is somehow more challenging. In general, it can be seen as the sum of the environmental opportunity cost of using a resource (defined as the value forgone because the resource can no longer be used at the next higher-value use) and the externalities (both positive and negative) generated by employing the resource (Rogers, 2002, de Silva, Bhatiac, 2002).

As the discussion of the Fordist accumulation regime had pointed out, the distributional effects of the cost-sharing strategy based on citizens' ability to pay should be interpreted as an expression of normative commitment to equity characterising the welfare state and as the embodiment of cognitive principle of economic action which favoured workers' expenditures in core consumption goods by decreasing living costs to low-middle income households.

The new concept of fairness emerging from the 1980s and 1990s shift revolved around the superior allocative efficiency and the non-discriminatory distributional effect of pricing water unit marginal cost equal marginal consumer's utility. Here too normative principles are at work, specifically a variation on the notion of individual autonomy that sees self-regulation of consumption level —and thus of economic contribution to provision— as the most desirable cost-sharing mechanism. The consumer's willingness to pay for a good —the bedrock of neoclassical microeconomics— must prevail over attempts to implement redistributional policies through service provision.

Here, it is worth remembering, I am concerned with the theory of economics determining the price of water for final consumption —chiefly residential, but the construct can be applied to commercial consumption too— the problem of pricing water when it is an input of production is thus left aside.

The theoretical construction of water provision as an economic good was the result of a protracted debate in economics, where contributions contesting the received knowledge on the nature of water provision and consumers' demand accumulated during the general rethinking of the neoclassical/Keynesian synthesis. Despite the apparent linearity of the argument adopted by the international consensus its theoretical foundations and practicability have been far less clear. Water, so the argument goes, is managed inefficiently because of under-pricing, hence a substantive redefinition of cost-sharing with customers is need in other to achieve full cost recovery. Low prices per unit consumed were the results of tariff structures that failed to account for the additional costs generated by increasing demand.

The critical reconsidering of water cost recovery coincided with a broader movement away from post-war consensus view on public ownership and stricter regulation of monopolies. In the water sector, the movement away from previous regulation of monopolies took the form of the contestation of the "engineering" paradigm prevailing in the post-war period. Residential water demand was there considered as largely unresponsive to pricing, i.e. demand for water consumption was assumed to be inelastic —elasticity being defined as the ratio of perceptual change in quantity demand to perceptual change of prices. Aggregated consumption level was assumed to reflect, in some fashion, urban population growth, and providers were tasked with the objective of ensuring a stable water supply vis-à-vis demand increase through investments in supply expansion.

As mentioned earlier, water SoP has been conceived of as a natural monopoly, a characteristic it shares with other SoP in the utility sector, although the relevance

of the latter category for describing firms providing public services has steadily reduced over the past decades. The number of public utilities associated to natural monopolies has been downsized by both theoretical developments in the field of industrial structure —in particular the "contestable markets" research agenda (Baumol, 1982)— and practical experiments of competition-inducing regulations.
However, the water sector exhibits several traits that pervasively relate it to a natural monopoly.
Natural monopoly describes a situation where a single firm can provide a good, or bundle of goods, more efficiently than multiple competing firms. The existence of a natural monopoly was traditionally associated to industry where economies of scale are predominant, i.e. where firms face decreasing average cost as output increase. A production process which entails high fixed costs (such as, in our case, storage tanks, underground supply network, pumping stations, wastewater treatment plants, and alike) and low variable costs (labour, intermediate goods), would face a cost curve as the one depicted in figure 4.5. Production from more than one firm would thus entails the duplication of fixed costs, rendering "competition in the market" in the water sector —i.e. competition for market shares in the same distribution area—a sub-optimal option in terms of total welfare outcomes. It is important to stress that the relevant spatial measure of natural monopoly in water provision and sanitation is a certain optimal distribution area designed primarily through engineering techniques. It is safe to assume that, in the case of urban water provision, an urban conglomerate is best served by a single operator, or at least that only one water distribution system exists.
The economic theories, especially after the introduction of the notion of potential competition in contestable markets, evolved in the direction of downplaying the definitory importance of economies of scale for the identification of natural monopoly. The hypothetical entrance of a competitor in a market, for the new consensus on industrial structures, was enough to prevent an incumbent from exercising its monopoly power (and thus earning extra profit, which in turn would attract prospective competitors).
The proof of the existence of a natural monopoly became the ability of potential competitors to enter the market (not incurring in cost disadvantages in respect of

the incumbent) and leave it while recovering the initial costs —i.e. freedom of entry and exit the market (Train, 1991). The concept of contestability extended the reach of (theoretical) perfect competition to territories traditionally associated with market failures[13].

However, in the water sector the potential entrant would face «unrecoverable entry costs that will be lost in case of failure» (Baumol and Willig, 1981, p. 418), i.e. those sunk cost that are forgone to the incumbent such as setting up a distribution network or obtaining the sanitary and legal certification by the relevant public authority. Water distribution is most likely to qualify as a natural monopoly in the context of contestable markets theory too.

The natural monopoly of supply, and the nature of the good (absence of substitutes, inelastic demand over basic consumption), makes room for dangerously attractive monopoly rent extraction. The possibility of extracting substantive extra-profit put water provision firmly in the camp of publicly run services or strictly regulated monopoly.

An unregulated operator in water provision would have little disincentives for not obtaining profit maximisation under monopoly rules, producing just enough to satisfy customers which will pay a price equal to monopoly marginal revenue (Q_{MON} at price P_{MON} in figure 4.5). The monopoly price is both inefficient and unfair, since there exists a large unmet demand and extra-profit represents a rent extraction transferring wealth from customers to the monopolist firm —especially objectionable when customers cannot abstain from consuming the good.

Solving the problem of monopoly pricing has thus been the task of governments or public agencies, which have to strike a balance between the compensation of costs and the satisfaction of consumers' demand.

[13] This shift was tellingly illustrated by Sharkey in his important book on natural monopoly: «the traditional view of regulation has held that due to barriers to entry, regulation may be required to protect buyers. To the extent that entry is free and the market is contestable, […] this form of regulation is unwarranted. In other words, a critical variable in determining the proper role of regulation in a given market is the extent to which there is free entry in that market» (1982, p. 152). A succinct history of the concept of natural monopoly is provided by Mosca (2008).

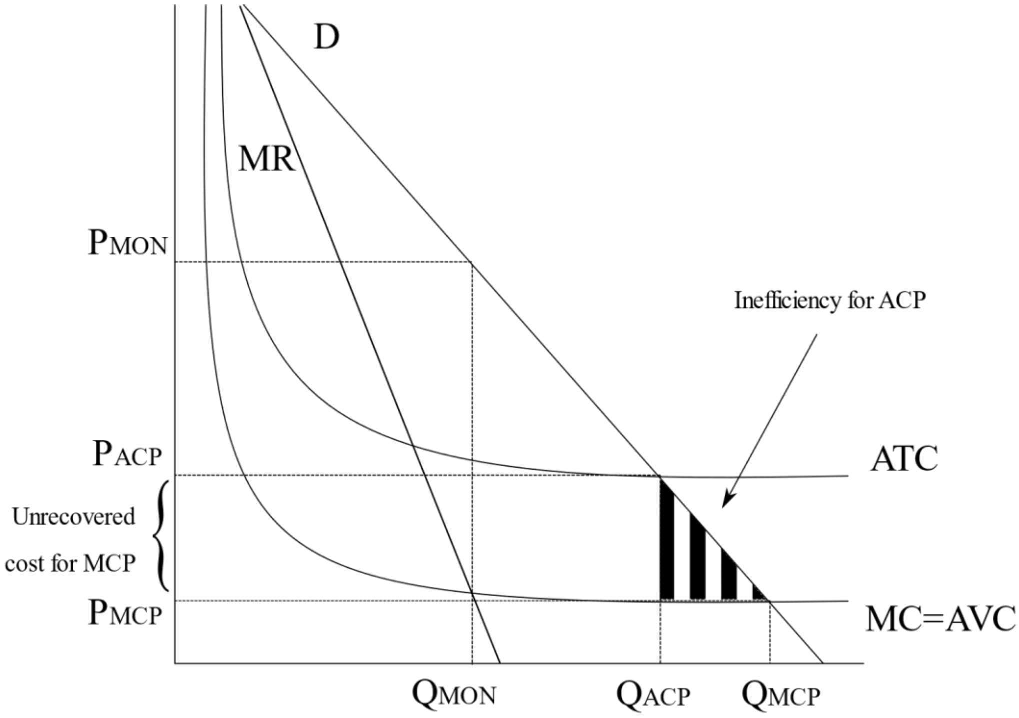

Figure 4.5. Natural Monopoly price choices.

The problem of pricing of water supply is a sectoral expression of the wider debate in economics on marginal pricing for industries facing decreasing marginal cost of supply, and high fixed cost (railroads, gas and water network, roads and bridges systems, etc.). Servicing one additional customer (i.e. producing one additional unit) is less costly as long as it does not impinge on the existing level of productive capacity. When fixed capital investments are deployed, the cost of producing the additional unit (marginal cost, MC) decreases with quantity, while the fixed cost to be recovered remains higher (average total cost, ATC).

A trade-off appears between recovering the cost, by pricing the good at the higher average cost (P_{ACP}), and allocative efficiency, which implies a lower price that fully satisfies demand (P_{MCP}). Solving this trade-off has been the subject of a long debate in economics, exemplified by the contribution of Hotelling and the by the critical appraisal of his argument presented by Coase (Frischmann and Hogendorn, 2015). In the Hotelling's view, the high fixed cost of supply should be subsidised by the government (by a lump-sum tax), and consumer price set at the lower marginal cost. Coase contented that subsidised fixed costs would 1. distort the decisions of consumers, who would forgo the opportunity cost of consuming the resource, 2.

belie the investment decisions in the subsidised good, since customers' willingness to pay for increased supply is veiled by the subsidy and 3. produce unfair distributive outcomes, when consumers whose supply entails higher fixed cost (e.g. because of spatial distance from main network of supply) are charged the same price than the one whose supply entails lower fixed cost (e.g. because clustered around the main delivery network).

Coase proposed a solution to reconcile cost recovery and efficient allocation, that became a standard for natural monopoly pricing: a twofold price structure (multi-part tariff), with a fix charge reflecting the fixed cost of supply and a marginal cost component accruing for variable cost.

Average cost pricing allows the provider to recover the cost of operation and capital investment and operation, despite implies an allocative inefficiency, so that part of the aggregate demand is not satisfied (the striped area in figure 4.5).

While ensuring full cost recovery, average cost pricing has a limit in the fact that it takes into account the cost the firm incurred for setting up a certain capacity and thus level of output. As the influential economist, and important contributor to the deregulation of US industries, Alfred E. Kahn noted: «[i]f capital costs are to be included in price, the capital costs in question are those that will have to be covered over time in the future if service is to continue to be rendered. These would be the depreciation and return (including taxes) of the future investments that will have to be made. These incremental capital costs per unit of output will be the same as average capital costs of existing plant only in a completely static world, and under conditions of long-run constant cost. [I]n a dynamic economy, with changing technology as well as changing factor prices, there is every reason to believe that future capital costs per unit of output will not be the same as the capital costs historically incurred installing present capacity» (Kahn, 1988, p. 98).

Marginal cost pricing would ensure that the relevant future costs are readily transmitted to today consumers, so that firm's choices of expand or withdraw capacity are grounded in customers' preferences. One common critical concern emerging in the mid-70s backing the sustained call for adopting a fully cost-reflective prices was the perceived accommodation by utilities of a growing demand by the means of subsequent expansions of capacity (e.g. new damns, power plants, etc.). The mechanism of prices as best allocator of scares resources was hampered. The three main tenets of argument, presented here in a sketchy summary, are as follows (Millerd, 1984). First, prices need to reflect consumers' marginal utility, and thus be set at marginal price. Each consumer should pay for the additional cost she bestowed on supply, so that her decision to consume an increased quantity of e.g. water reflects the marginal benefit of forgoing other possible consumption choices. If water is priced above marginal cost, no economic incentives would exist for adjusting demand to the actual level of utility received by water consumption. Demand would increase irrespective of existing supply level, leading providers to undertake costly capacity expansion projects. Non-marginal pricing, so the argument goes, leads to both over-consumption and over-investment.

Second, for price to function as a signal of marginal utility at marginal cost, units of water consumed should be priced equally for all the consumers, i.e. all the consumers should pay the same unit price for similar quantities bought under the same circumstances. Similar goods should be paid equally for purchases done in the same place and time, irrespectively of the quality attached to the consumers: prices, crucially, should not take into account "non-strictly economic" concerns, such as for example redistributive aims. Tariff structures that subsidise consumption prevent the full cost of supply to be borne by the agents whose demand is generating the cost.

Third, prices should reflect both the cost of production and the cost of negative externalities deriving from supplying the good. The full internalisation of externalities trough the price mechanism means that environmental conservation is fully accounted for by market transactions, substituting the inefficient command-and-control public regulation —e.g. mandatory limits to water consumption in dry season.

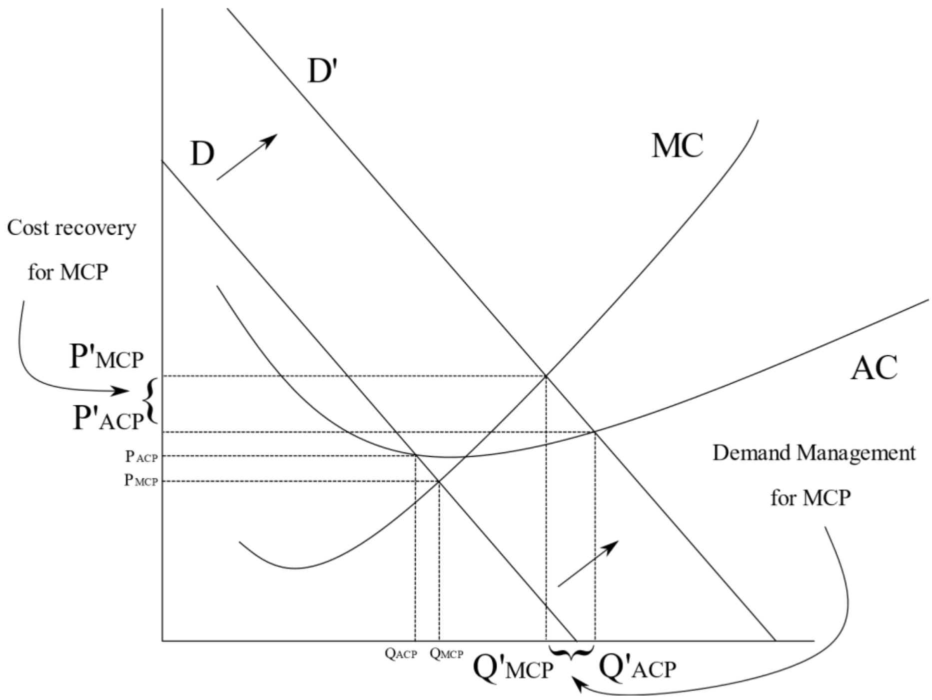

Figure 4.6. Marginal cost pricing for increasing demand and capacity

These three principles —marginal cost pricing, non-discrimination and internalisation of externalities— may be seen as a further specification of the concept of full cost recovery. Their opposites —non-marginal cost pricing, forms of price discrimination and non-pricing regulation of externalities— belong to the previous *economic* regulation of provision, where water was already construed as a resource (therefore insert in the wider framework of economic management) but not as a commodity (therefore relying on market transactions as foundational logic of management).

Design tariffs that account for the full cost of water is an ambiguous proposition. Addressing the economic cost of service, as discussed above, is by definition the rationale of tariffs. The environmental cost of water is a more elusive concept. If the full environmental cost of water consumption is to be captured by prices, an extensive valuation of the environmental benefits deriving from not consuming water should be in place. In other words, a thorough water-related ecosystem services' valuation and pricing should inform the providers' decision on tariff. Despite being an established theoretical path and a possible practical outcome, this condition is seldom represented in actual pricing strategies.

However, marginal cost pricing was justified by the benefit it can induce on conservation of water, thanks in particular to the better demand management it allows. In the theoretical construct, providers are assumed to enjoy decreasing costs of supply during off-peak periods, while facing increasing costs at peak loads — daily and, more relevant, seasonal times of maximum demand. In the latter case, (long-run) marginal cost pricing would reflect the cost of increasing capacity for meeting peak demand (see figure 4.6). Since it is principle possible to identify peak load contributors, it is possible to price them for the extra cost imposed to the network. Off-peak users are penalised by average cost rate, because they are charged for the cost of purchasing and operating additional fixed assets for meeting peak loads.

Peak load charging offers the rationale for the coupling of marginal cost pricing and conservation efforts. At peak load, the entire productive capacity is in use, and the providers is thus facing increasing marginal costs. Meeting peak demand is the motive for additional investments in catchment and abstractions. Higher prices would reduce the propensity to consume in peak load, and thus the need for extra pressure on resource supply.

The demand management component of marginal cost pricing (here considered at peak load capacity) is dependent from the elasticity of water demand. Inelastic demand would produce extra revenues for the provider, with little appreciable reduction of resource's consumption. For initial strong advocate of marginal cost pricing, the resulting extra-profit accruing to suppliers «any deviation from marginal cost pricing will be inefficient» (Millerd, 1984, p. 13).

The burden of the proof for the conservative benefit of marginal cost pricing is shifted to the empirical measure of water demand elasticity. The literature on the topic is legion, and widely variegated in results[14]. The problem of estimating the

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[14] In a forerunner study, Howe and Linaweaver (1967) define domestic demand as the average winter demand, and sprinkling demand as average summer demand in excess of winter average. They found that domestic consumption is inelastic (1 percent change of price leading to a 0.23 percent decrease in demand). Sprinkling consumption, on the other side, is found to be elastic in non-dry areas (1 percent change in price leads to a 1.6 percent decrease in demand), and inelastic in dry areas (1 percent change in price leads to a 0.7 percent decrease in demand). Moreover, taking property value as a proxy of income, they found that consumption of water for domestic uses is modestly sensitive to income variation (1 percent increase in income leads to a 0.35 percent increase

price elasticity of water is central to the argument that pricing is an effective strategy for efficient allocation coupled with enforcing conservation efforts. If elasticity is very low, price increase needs to be proportionally large to induce the desired demand management. The adoption of higher unit price across all users, e.g. in peak time, will risk of pricing out low-income households. A trade-off between affordability and conservation —enforced trough the pricing mechanism— is thus appearing. Several correctives have been devised for tackling this trade-off. Among the many, the Increasing Block Tariffs (IBT), a tariff structure which price volumetric consumption progressively higher in a nonlinear fashion, gathered momentum in the past decades.

If price elasticity *decreases* for the largest users —as at least partially implied by the large diffusion of IBT— and the latter are high income households, engaging in luxury consumption, sustained price increases are fair. However, the conservation effect on high volume consumers may be negligible.

Several critiques have been put forward against the inaccurate assumption of IBT.

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in consumption), where luxury consumption follows the same pattern as price elasticity being less than one in dry areas (1 percent increase in income leads to a 0.4 percent increase in consumption) and elastic in humid areas (1 percent increase in income leads to a 1.5 percent increase in consumption).

Weather conditions *reduce* price elasticity, i.e. in a situation of physical scarcity —when efficient allocation would be valued at the most— prices may not prove the best mechanism for demand management. Second, and of great importance, income elasticity varies with the type of water consumption taken into consideration. In other words, water may be seen as a necessity good for the domestic (=winter demand) uses, so that an increase in income level produce a less than proportional increase in consumption. When sprinkling (=summer demand in excess of winter one) uses are considered, water is a luxury good —an increase in income produce a more than proportional increase in consumption— for specific non-water constrained area (this latter specification is in itself quite inconsistent with common logic, which may be explained by the fact that arid areas do not sustain wide gardening regardless of the amount of water employed).

Since Howe and Linaweaver seminal paper, econometric estimations of water consumption price elasticity and, to a lesser degree, income elasticity flourished. These enquires became a research field in themselves, attenuating the original connection to the research agenda advocating for marginal water pricing. The results obtained are widely varying, as the techniques and specifications adopted for data collection and analysis. The meta-analyses offered in the literature vary too, so that it is justifiable to say that no consensus exists on the average values of price and income elasticity of water, even for roughly equivalent customer bases. Price elasticity is on average estimated between 0 and -1, but the value moves from very inelastic (-0.01) to almost elastic (-0.99). Conversely, income elasticity is normally taken to be a positive value comprised between 0 and 1, with the estimate moving in between values according to the study (Havranek *et al*., 2018).

In the context of the developing countries, IBT tariffs have been questioned for their probable adverse effect on low-income households, whose average size can be much larger than affluent households. Similarly, low-income households are more likely to share the same metered connection, as the result of sub-rent or partioning of a property among members of an extended family. The relative disadvantage of low-income households in the context of the developed countries derived from the lack of state-of-the-art water-saving devices —which require an investment in new and expensive white goods.

The pure reliance on the quantitative measure of consumption, for this type of tariff structure as more in general in the logic of full cost-reflective (as defined above) prices, entails the risk of unfair treatment. Equitable treatment may be restored by the means of qualitative indexes complementing volumetric charges, such as registered household size, property value, type of appliances owned. However, these kinds of measures are usually discarded as too expensive for the provider to carry on. They are, at a more fundamental level, profoundly at odds with the economic equalisation required by the expansion of the market.

The introduction of economic valuation —in this context it equates with cost-reflective prices— has a general as well as sectoral significance.

The effect of full cost recovery on the affordability of services constitutes a major gap in the economic literature on water pricing. The proponents of the model certainly maintain that it is the only economically sustainable, and that full cost will benefit the lower-income part of the population by providing better quality. Critical scholars have objected that, backed by empircal evidences, that treating water primarily as an economic good has social and environmental negative consequences (Castro, 2007). I will return on this theme by exploring the case study in Chapter 5.

4.3 Financialisation: portfolio investments and securitisation

The formula "financing gap" is becoming predominant in international developmental literature for explaining the backlogs of water infrastructure in developing countries. Institutional, historical, geographical and social adverse conditions are reduced to a failure to attract funds from investors, and often explained as a deficiency in recovering capital costs under the existing system of provision. Since the capability of governments to use public spending is constrained by the sustainability of public debt —and at a more fundamental level by the anti-inflationary commitment of most of the modern central banks— filling the gap becomes a matter of restructuring attracting private capital. This does not need to translate into outright privatisation. As discussed in previous section, several organisational arrangements allow a water provision to function according to business principles, and thus to potentially become the recipient of private investments.

The "financing gap" concept is an indicator of the potential for water providers around the world of being integrated in the circuit of financial capital (Ahlers and Merme, 2016).

The intersection of water provision and financialisation is a still a relatively new field of critical research. the great variety of financial instruments that can intersect water SoPs represent a challenge for a unitary treatment of the phenomenon. I will narrow the scope of this brief exploratory section down to two types interaction: portfolio investments in water-specific financial assets and securitisation. A third type of financial interaction, well-established and known, namely shareholding, will be touched upon in the next section, while discussing the neoliberalisation of water provision in England and Wales.

Investing in a portfolio of assets entails holding securities for acquiring a stake in the stream of earnings that they generate, or for realising a capital gain by selling them. Portfolio diversification, i.e. investing in different classes of assets, with different risks and expected performance, is the routinely operation of investment funds, financial intermediaries managing savings. The global water sector offers investors an opportunity of portfolio diversification.

Indices are a first type of instruments for dedicated investments in water-related assets. They offer investors returns equal to the average shares' performance for companies engaged primarily in industrial production or service delivery of the water SoP. Water indexes are subsection of stock market indices focusing on the performances of water-related companies' shares. Dow Jones, Nasdaq and S&P 500, for example, put forward multiple water indexes of their listed companies — e.g. the Dow Jones U.S. Water Index, ISE Clean Edge Water Index and S&P Global Water Index, respectively.

Secondly, index funds —mutual funds whose portfolio is structured to reflect the composition of one or more indexes— specialised in the water sector co-exist with similar products offered to investors by investment banks and generalist mutual funds.

A more selective channel of portfolio investments to the water sector is represented by dedicated asset management funds. Pictet Asset Management, for example, was the first investment fund to launch a specialised comportment —business division— for water-related corporations (Pictet – Water) in 2000. The fund invests in shares of companies providing water technologies, water and sanitation, water-related environmental services —for example holding minority positions in large listed utilities in US (e.g. American Water), France (e.g. Suez and Veolia Environment) and UK (e.g. Severn Trent).

Water indexes and water managed funds are thus the two main gateways for portfolio investments in the aggregated water sector, as oppose to the purchase of shares of an individual water company or the acquisition of the control stock of a utility. Both types of portfolio instruments are distributed by financial intermediaries which, by investing in the same group of listed companies, constitute a financial network of minority ownership in the main global companies operating in the water sector (Bayliss, 2014).

Portfolio investments, as noted above, do not involve acquiring control shares of the companies, thus attributing to fund managers a marginal role in determining the day-to-day business strategy of the companies.

However, minority investors have in aggregate an important role in influencing firms' choices about the allocation of revenue to shareholders, i.e. rising normal dividends, distributing special dividends or engaging with share buybacks. By their collective behaviour —the decision to hold or sell shares— minority shareholders can influence the market capitalisation of a company, lowering the share prices and thus offering opportunities for takeover bids, to the point of forcing the recapitalisation of the firm. This is especially relevant when minority shares are held by few financial intermediaries, concentrating the management of financial assets, rather than by the public at large. Moreover, minority shareholders are an important barometer of the market sentiment in regard to changes in the business environment in which the company operates, which in the regulated utility sector directly translates in the attention to shareholders' approval of the revisions to the regulative framework (Morana and Sawkins, 2000). Financial intermediaries holding minority shares are enforcers of the shareholder value approach to business management, and they are a component of the depoliticisation of regulative action conveyed through the stock market.

While share-issuing is, in theory, a channel for financing new investments, firms rarely resort to follow on issuing as a means to raise additional capital. Stock dilution negatively affect the price of shares, and by simply announcing a follow on may cause a firm's market capitalisation to plunge.

Retained earnings, for companies able to generate large annual profits, is a viable source of funds. Banks are the traditional source of new capital, while financial solid companies can directly access the market for borrowing by issuing bonds.

The financial innovation of the past three decades have provided firms with an additional finance source: securitisation (Allen and Pryke, 2013).

Securitisation, in a nutshell, is a contract establishing a financial structure optimised for selling existing financial claims to market investors (Buchanan, 2017). As universally known, asset-backed-securities —and in particular mortgage-backed securities— played a central role in the 2008 financial crisis.

The history of asset-backed security is a conspicuous example of recent disruptive financial innovation. The first experimental new securities, the mortgage-backed securities, evolved from the operation of US government agencies tasked with expand the mortgage markets. In the 1970s, the Government National Mortgage Association (known as Ginnie Mae) created the first pass-through contracts for housing loans (Agarwal *et al.*, 2011).

The pass-through contracts allow for the principal and interest payments to move from the originator of the loan to investors, via the intermediation of Ginnie Mae.

The lenders could move the risk associated with the loan off their balance sheets, and the bond purchasers could buy a low risk liquid asset.

The pass-through contracts were prone to the problem of early repayment, or the unexpected repayment of the principal before the expiring date of the bond, due to refinancing. A decrease of interest rate would have induced the borrower to seek an interest reduction by borrowing anew and extinguishing the original loan. The investors would have to deal with reinvesting the principal at a lower interest rate.

The problem of managing interest variation was addressed by a new round of financial innovation. In 1983, Federal Home Loan Mortgage Corporation issued the first collateralised mortgage obligation (CMO), offering different classes of repayment (tranches) with various maturity dates.

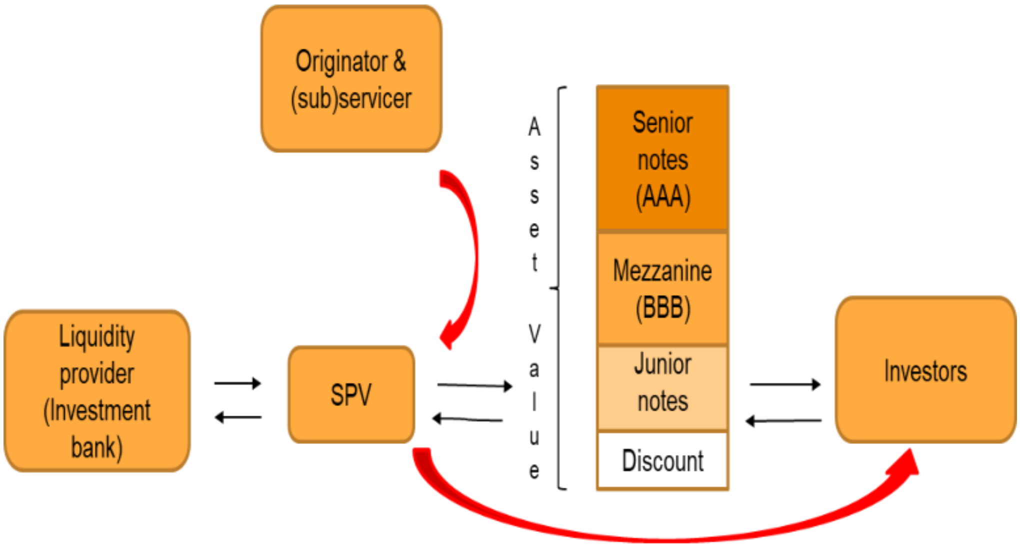

Figure 4.7. Simplified Securitisation Scheme

The CMOs brought to be the typical design of asset-backed securities (ABSs). The subdivision of the security into tranches became the main feature of credit enhancement strategies for ABS. A simplified example of the structure of a securitisation agreement is displayed in figure 4.7. The past or future credits are sold by the originator —in our case the water provider— to a Special Purpose Vehicle (SPV) owned by a financial intermediary (e.g. an investment bank). SPVs are subsidiary companies which have the only purpose of purchasing the credits and re-selling them as a structured financial instrument. The cash flow produced by the repayments is broken up in senior and several subordinate debt claims. The former has the highest priority and lowest risk of default. The subordinate claims have a progressively lower priority and higher risk. The security displays a "waterfall" structure, where the most senior tranche receives the most secure part of the cash flow, the remainder cascading down to subordinate tranches. The security has an internal risk spread, reflected by the different credit rating attached to the various tranches. This feature has a special significance: it allowed institutional investors (e.g. pension funds), which must satisfy stringent requirements in terms of risk exposure, to invest in the new asset class.

The private banking sector adopted securitisation starting from the 1980s, expanding it to non-mortgage credits: «through securitization, they transformed illiquid traditional bank loans into tradable asset-backed securities which could then be sold to a third party » (Konings, 2008, p. 63).

The expansion of securitisation to potentially all types of receivables was the next development of the new market. Auto-loans, equipment leasing, and credit card repayments were ideal candidates for securitisation.

Securitisation is increasingly becoming part of the financial planning of water provider. In particular, securitisation of account receivables has been widely implemented to render liquid both past-due bills and future claims on water accounts.

By selling large tranches of past-due and future bills, the water subsidiary was able to obtain new financial means at a lower interest rate than through the emission of conventional bonds or bank credit, while reducing its exposition to the risk of consumer's default.

However, it is unclear whether securitisation is a sustainable financial means for the funding requirement of a water provider. First, it allows to conceal the real indebtedness of the originator, since the sold commercial credits are not registered as financial debt in the balance sheet. This may lead to an overreliance on debt rather than equity for meeting financial needs, and to an overconfidence in generous dividend distribution. Second, at a systemic level, securitisation may yet again lead to an increase of the Minskyan financial fragility.

Moreover, the aggressive practices of debt recollection (e.g. disconnection) are more, rather than less, likely to be implemented by water providers. The stability of the cash-flow generated by account receivables is the prerequisite to securitisation, and the revolving nature of the securitisation agreements (i.e. the yearly new selling of account receivables) hints at a closer policing of payments rather than renegotiate unsustainable outstanding debt.

The need to service shareholders and bondholders at market rates prompts strategies for tackling underperforming revenues. As correctly pointed out in the literature, the predictability of revenue streams is paramount to financial stability, even more so if the companies (or the municipalities) rely upon complex financial instruments for financing their operation, as in the case of securitisation.

This in turn poses the problem of efficaciously collecting revenue, containing arrears and possibly increase the profitability of services. Companies experimented with a number of technical solutions for enhancing the regularity of billing (e.g. smart meters) and reducing the outstanding debt of household (e.g. prepaid meters). These strategies, considering non-payments as liabilities to be written off at the lowest cost, are increasingly moving the actions of the providers in the narrowly technical realm of revenue enhancement programmes.

4.4 The unfolding of neoliberalisation: the case of England and Wales.

The privatisation of the water sector in England and Wales is emblematic: 25 years after public divesture, prices rose 40% above inflation, dividend pay-out remained high while the financial debt radically increased (Bayliss, 2014). Even the extent of environmental preservation —a crucial justification for the overall effectiveness of the new regulation— is questionable. There are evidences suggesting an unwarranted preference for capital-intensive high-impact projects that boost the rate of return on capital of the firms at the expense of more sustainable solutions (Bakker, 2005).

The governments of Margaret Thatcher have played a major role in the inception of neoliberalism, together with Ronald Reagan's presidency in the United States. As Cooper (2012) has noted, the privatisation program —which would become an iconic neoliberal reform — was largely a British phenomenon, aimed at dismantling the post-war nationalised industries. In contrast, nationalisation had been undertaken at a much lesser extent across the Atlantic.

The process affected an extensive number of companies across sectors; among the utilities, British Telecommunication, British Gas, and lastly the public water systems were privatised in the eleven years Thatcher spent as UK Prime Minister.

In 1989, the Parliament passed the Water Act, which aimed to turn the ten regional water and sewage authorities into limited companies. They retained ownership of the network and industrial assets, while their newly created parent companies were floated on the London Stock Exchange.

To attract investors and counter the perceived economic weakness of the sector during the public era, the government set generous conditions for the floatation. Long-term debt was written-off, and the newly founded companies were endowed with a cash injection and an additional tax allowance (OFWAT-DEFRA, 2006). In issuing the shares, the government aimed for a total revenue below even a conservative estimate of the asset value. Shaoul (1997) has argued that, as a result, the proceeds of the IPOs hardly earned a return to the Treasury over the cost of privatisation.

In line with the idea of neoliberal re-regulation, the privatisation of water in England and Wales has been accompanied by an increasingly complex regulative framework for the utilities. Among the independent agencies created to manage different aspects of water governance, the Water Services Regulation Authority (OFWAT) oversees the economic regulation of the water and sanitation market. It has the duty to elaborate the methodology of assessing the overall economic performance of the companies. This, in turn, enables the sectoral price-setting mechanism to operate.

One of the architects behind the economic regulation of the privatised utilities was the economist Stephan C. Littlechild (Tribe, 2009). The original model of price determination devised by Littlechild was based on the price-cap method (Beesley and Littlechild, 1989). Price-cap regulation sets the maximum price-level companies are allowed to charge for a basket of services per year, taking into account the inflation rate (measured by the Retail Price Index, or RPI), capital requirements and perspective savings due to improvements and efficiency gains. OFWAT sets prices in advance and revises them on a five-year basis; unlike the other privatised utilities, water prices were allowed to rise above inflation.

The ability to retain the profits made within the price-cap represents an incentive for companies to lower their overall costs, while the periodic review of prices would ensure that the companies enjoy the extra profit derived from outperforming the price-cap for a definite amount of time (Helm and Rajah, 1994).

The price-cap was initially envisioned as a light-handed and transitory mechanism (Lodge and Stern, 2014). The lighter version of the price-cap mechanism has to be modified in the first price review in 1994. In the five years following privatisation, a joint trend of sharp rise in customer's bills and high corporate returns was registered (Lobina and Hall, 2001), which led to question the ability of utilities to properly allocate the capital investments and share benefits with their customers.

A technique to calculate an appropriate rate of return for the firms in the sector was introduced, and it assumed a central role in price determination. The process entails the estimate of the total value of the shareholder's funds on which a return is earned, or the regulatory capital value (RCV). RCV is combined with a regulator-sanctioned cost of capital, which is the minimum return that would persuade financial stakeholders to invest in a regulated company.

Although the rate of return regulation was thought to provide the regulator with more accurate indexes of the cost to finance operations, the model attracted criticism for over-incentivising large capital expenditures at the expense of alternative allocations of the companies' resources (OFWAT, 2011b).

The bias towards capital-intensive investments is not an isolated phenomenon: there is evidence that the regulation has serious flaws which (1) incentivised debt-prone capital structures, (2) was unsuccessful in reducing the extra profit attained by firms, and thus (3) failed to claw back revenues for the benefit of customers (HCPAC, 2015).

Bills rose to around 40% above inflation in the past 25 years on average. They account for an average of 2.3% of an average-income household's expenses and up to the 5.3% for household in the lowest 10% income level (NAO, 2015).

UK citizens are under pressure to meet rising living costs vis-à-vis a harsher economic climate. In the water industry, this translates into a growing inability for households to keep up with increasing water tariffs and the ensuing household debt over water bills.

Nevertheless, the average revenues of companies have been stably high (Tinson and Kenway, 2013). The portion of revenue allocated to capital maintenance (23.1%) and gains (26.8%) contribute to half of the bills (OFWAT, 2011). The regulator and companies believe this is because of the nature of the industry, where substantive investments are required to meet quality and environmental standards. Because a return on capital is allowed, critics have opposed the ability of companies to increase profits by increasing capital investments as long as their cost of capital is less than the one set by the regulator over each period. In doing so, firms could adopt strategies to decrease the cost of capital by shifting the capital structure towards a higher level of debt to equity, i.e. raising the gearing level. This is arguably one crucial reason why companies saw their debt-to-equity ratio rise in the past decades, reaching well above the level expected by the regulator.

Interest payments now count for 20% of firms' turnover (Tinson and Kenway, 2013) and the «highly-leveraged structures that have emerged typically have gearing of between 75% and 85% of RCV» (OFWAT, 2011, p. 38) against an initial estimated optimum of 55%.

Although commentators and OFWAT alike recognised that the industry is able to withstand a high level of gearing due to the relatively low-risk and stable returns, the creditworthiness of the large, highly leveraged companies has deteriorated over the past decades. On average, credit rates have been downgraded (OFWAT, 2011), but all of the companies were able to abide by the regulation to retain an investment-grade credit rate.

The question becomes whether this large debt is used to fund investment programs while the bills are kept as low as possible.

As Turner (2013, p. 39) showed with detailed figures, over the period 2004-2009, Yorkshire Water spent, £1.7 billion (in 2009 prices) in investments, £447 million in net interest, £224 million in corporation tax, and £1.725 billion in dividends. This came out of its total £2.4 billion budget for operations, which resulted in a negative cash flow of £1.6 billion.

It is not an exceptional case: companies have been found paying out dividends exceeding their free cash in many instances. According to Tinson and Kenway, «retained profits fluctuate around zero […] being negative six out of the 15 years» (2013, p.10) for the period 1996-2011. In other words, the extra profits obtained by the companies outperforming the cost of capital did not translate into a reservoir for investments after interest and taxes were paid; instead, they were redistributed among shareholders as dividends. Companies' decisions over dividends have come under scrutiny since the early 2000s, when the sustained increase in gearing ratio started to be perceived. OFWAT however decided to not regulate dividend distribution, assuming that market mechanisms would ensure the appropriate remuneration for shareholders. Indeed, over the past decade, dividend payments have not substantially decreased; rather, the proportion of capital raised through equity diminished while borrowing increased sharply. These elements support the explanation that the largest water companies found in the high leverage a tool for meeting shareholders' demand for stably high dividends (Armitage, 2012).

Finally, takeovers and changes in the ownership structure should be taken into account for better explaining the hike in debt. Four of the major water and sewerage companies are currently controlled by private equity funds (NAO, 2015), and they have the highest levels of gearing and the lowest credit rating. One central reason for this correlation is that private equities adopted some form of leveraged buyout, i.e. the acquisition of all of the shares of a company via capital for the largest part borrowed. The financial parent company would then raise capital through a further increase in gearing to repay the interests on the acquisition loan. New debt is issued to cover outstanding debt, as shown in the case of Thames Water by Allen and Pryke (2013).

The Welsh water and sewerage company acquired the regional electricity utility, Swalec, in 1996 and formed the multi-utility business Hyder. The acquisition was largely funded through debt, equivalent to «88% of the purchase price» (Thomas, 2000, p. 182), and it pioneered the high leverage level that would become the new sectoral standard in the following years. In 1997, Hyder further expanded its business with the takeover of the regional gas company, in line with the diversification strategy adopted by many major regulated companies in the first decade after privatisation (Bakker, 2003).

The debt burden inherited from the takeover, the large scope of Hyder's business, and the modest revenues derived from some of its unregulated branches brought the multi-utility business into a difficult financial position. The two price reviews for its energy and water activities called for a reduction in tariffs, and the 1999 windfall tax on water companies' extra profits compounded the group's distress.

In 2000, Hyder was acquired by Western Power Distribution, a US energy utility aiming to control the electricity branch of the group, and the multi-utility was broken up. The water and sewage business were taken over by a newly formed company, Glas Cymru. The financial structure of the new corporation was unique to the sector at the time: it must be financed through the issuing of securitised bonds (i.e. debt) only, and all the profit must be reinvested in the firm's operation because it is not-for-profit by statute.

The absence of shareholders is reflected in the ownership of Glas Cymru and Dwr Cymru Welsh Water (DCWW), its regulated subsidiary. Glas Cymru is a company limited by guarantee, and its members thus control it. Members have similar duties to shareholders, but they do not benefit from dividend payments or other financial returns from the company. The enterprise now has 73 members appointed by the board with suggestions from an independent membership panel. Members are regional stakeholders with professional, academic, public office, and water services backgrounds. The members have a monitoring and steering role in corporate governance, such as setting the company performance targets, which determine board and employees' salaries, and replacing directors if those targets are not achieved.

At the time of the takeover, Glas Cymru committed to not diversifying its business. This added confidence to the risk-reduction plan the company must undertake to reduce its cost of capital and outstanding debt.

The absence of dividend distribution allowed for an increase of retained profit, which statutorily must be used towards improving service quality and environmental preservation programs or shared with the customers.

In terms of performance, the company scored positively in many instances since its inception. The gearing level was reduced from 93% at the turn of 2000 to around 60% in 2015 (DCWW, 2015). The credit rating improved to become one of the highest in the privatised sector. Over the same period, the company abided by OFWAT's investment plan to meet national and European sanitary and environmental standards. Investments in the assets base (as estimated by RCV) ranked second among the 10 water and sewerage companies by 2010 (Owen, 2013); the financial reserve, acting as a buffer to prospective shocks, amounted to around £1.5 billion in 2015 (DCWW, 2014). Moreover, the company claims to have distributed benefits to customers in the period 2001-2015 by, for example, offering schemes for customers who struggled to pay their bills (£22 million) and direct bill rebates (£152 million).

The company was able to reduce their customer bills from 23% above sectoral average in 2001 to 3% above average by 2015 through the combination of cheaper capital borrowings, initial outsourcing of the bulk of its operative activities, low corporate taxes, and the absence of dividends payments.

The not-for-profit, member-owned design of the business has proven to be a viable alternative strategy to the corporate and increasingly opaque ownership structure in the water sector. However, as of writing, no other major English water and sewerage firms have replicated it.

Glas Cymru has achieved a remarkable level of operational efficiency from an initial condition of financial distress. Nonetheless, the good performance comes to a cost, literally. With bills around £435 on average per household (DCWW, 2015), Welsh Water is among the less affordable providers in the privatised sector, despite the renewed commitment with the regulator to raise bills at a rate lower than the inflation rate for the second consecutive price review. The bad debt over Dwr Cymru bills was «£29 million (2014: £28 million) [...] at around 4% of annual turnover, [...] larger than for most water companies» (DCWW, 2015, p. 46).

Secondly, although the water and sewage infrastructure in Wales was below the average level of efficiency and maintenance before privatisation (Owen, 2013), a tendency towards capital bias can be detected in the Welsh water utility. The expenditures to increase the regulated capital value grew faster than the sectoral average: this helped reduce the cost of capital, which benefited from higher credit ratings, but came at the expense of other possible allocation of revenues, such as larger bill rebates for customers.

Finally, the absence of corporate shareholders proved to be a positive feature of Glas Cymru financial structure, eliminating the allotment of financial resources to high dividend payments (Moody's, 2010). This is vital for the assessment of the outcomes of the English and Welsh water privatisation. It stands in stark contrast with the assumption that the profit motive of shareholders determines a more efficient spending of company resources. Privatised companies saw a sharp rise in bills over the first decade of under-regulated activity and an alarmingly high level of debt over the second, when the regulator cut prices for first time. Thus, the English water sector seems to have benefitted little from a profit-seeking ownership structure.

Yet, the not-for-profit status of Glas Cymru does not necessarily imply that management has total freedom of manoeuvre in pursuing the best arrangement for their customers and enhancing public utility. By relying totally on private debt for financing its operations, the company has to grant its bondholders a degree of control over business and financial decisions. Protecting bondholder interest is included in the company operation through a set of contractual mechanisms, such as mandatory liquidity reserves and cash-trapping triggers if the creditworthiness of the firm falls below certain thresholds, which would suspend the ability to refinance debt or distribute gains among customers.

These limitations are consistent with the restrictions on bond-issuing all high-debt companies in the sector are subject to. Nonetheless, the fundamental tension between socially just provision and financeability of the business arguably remains for Glas Cymru.

4.5 This is (not) England: limits of the neoliberal consensus?

The English water sector is a centrally contentious case of complete public divesture from a socially necessary utility. In 25 years, the sector went through several shocks and regulative re-arrangements. Two tensions emerged from this socio-economic experience: on one side, the ability of the industry to finance its operations has been opposed by the large investments required by environmental and sanitary standards; on the other, the proper return to invested capital stands in opposition to the affordability of water services for all classes of citizens (Bakker, 2007).

As we saw, the highly geared financial structure of the biggest groups in the sector seems rooted primarily in the need to ensure a stably high return to shareholders and bondholders and to finance debt acquisitions. Only to a minor extent it is justified by the inherent financial burden of the water sector. In other words, if water and sewerage services do involve a constant and large flow of resources for sanitary treatment, infrastructural maintenance, and environmental preservation (e.g. sewage disposal), the spending patterns of privatised firms suggest that the substantive transfer of wealth from customers to the financial stakeholders of the firms goes beyond the necessary capital investments and the proportionate returns on them.

Both the for-profit and not-for-profit privatised utilities did not reduce the cost of water and sewerage activities and instead exacerbated pressure on households while delivering a varying degree of returns to their financial stakeholders.

The troubles of the English water sector with returns on capital and the model of zero-shareholders adopted by Glas Cymru show that it is both possible and beneficial to limit the shareholder gains on utilities operations. This holds true for a number of cases where the ownership and management of water utilities is still under public control, but includes private capital in form of equity participation, as in many continental Europe water companies subjected to PPPs.

The lesson from Glas Cymru is that its not-for-profit status and consequent obligation to reinvest revenues into business are desirable but not sufficient organisational arrangements for moving water services away from commodification.

Another central element in the analysis is the need to finance investment with large upfront costs. The problem is two-fold: on one side, the regulative framework is fundamental in avoiding capital bias, or undue capital-intensive investments aiming to increase the returns on company earnings. OFWAT has acknowledged the problem and modified its methodology for addressing it for the 2015-2020 price period (OFWAT, 2013).

Nonetheless, even where capital bias is removed, the substantial costs of operating water services remain. As noted in the case of Welsh water provider, the complete dependency on debt financing has implications that should not be underestimated. In the context of the privately financed English water sector, Corporate Watch has argued that reverting to public spending would reduce the debt by some £2 billion, due to the government's lower cost of borrowing (CW, 2013).

The capital structure stemming from financialisation has political effects too, in coordination with the regulatory framework which allowed its emergence (Allen and Pryke, 2013). For regulated companies, the public authority acts as a market proxy, determining the level of prices to simulate the interplay of competitive forces. It is less a straightforward and technical process than commonly assumed, and it ultimately rests on a form of bargaining between the regulator and the regulated utilities. The freedom of manoeuvre of OFWAT for setting the level of spending of each company is reduced by the financial burden accumulated over decades. Even if mechanisms have been established to deal with financially underperforming enterprises, it is less likely that the regulator would act, under political pressure, to radically redistribute the gains of licensed utilities to citizens.

In the price review for the 2015-2020 period, published in December 2015, OFWAT mandated an average reduction of about 5% of annual bills. It was a timid measure compared to the 1999 price review when a 12% reduction was achieved. At that time, when the average level of debt among water companies was substantially lower, the decrease in prices was among the causes of the financial turmoil around Welsh Water.

Another issue connected with the regulatory framework is the public accountability of water companies. On one side, OFWAT needs to rely significantly on the information disclosed by the firms to set its complex regulative mechanism in motion. This has been the source of constant information asymmetry between the authority and its licensees, leading to misrepresentation of the companies' actual economic situations in many instances (HCPAC, 2015). On the other hand, citizens have been almost completely disconnected from the scrutiny of the management of a basic social good. Although customer engagement is a familiar refrain in official and corporate documents, it does not translate into a strong commitment to collective accountability and political involvement into decisions concerning a public good.

Companies and the regulator have envisioned measures such as customer consultation through satisfaction surveys; direct impact of customers over business through market mechanisms, such as increasing metered connections; and, in the future, allowing customers to exercise choice over the retailing service provider. As Page and Bakker (2005) correctly noted, the privatisation process shifted away from the indirect political control that citizens had over water utilities, namely their ability to vote for who owns the utilities and appoints managers. Under privatisation, water users became customers only, and their influence over the provision of water became an individual consumer right, except even more limited due to the quasi-monopoly condition of water utilities.

In the 1990s and early 2000s, at the height of the global water privatisation campaign, episodes of resistance multiplied. The cases of 'water wars' across the Global South reached the global audience of activists and critical scholars, connecting the struggle for water to the broader anti-globalisation movement (see *inter alia* Hall *et al*., 2005; Olivera and Lewis, 2004; Sultana and Loftus, 2012). More recently, in the Global North discrete cases of resistance sought to reduce the presence of private contractors in WS provision (Valdovinos, 2012).

Empirical experiences of re-municipalisation, as in the case of Paris and Berlin (Hall *et al*., 2005), have been described as examples of a movement away from market-oriented water governance.

Moreover, the concept of public-public-partnerships (PuPs) have gained some traction among critical scholars and practitioners. PuPs are networks of public (in the broadest sense of the term) investors, such as local governments, NGOs, trade unions, and civic associations, that are committed primarily to the collective utility of water services may be a viable source of financing for equitable water provision (Hall *et al*., 2009).

As the first wave of neoliberal reforms suffered setbacks in a substantial number of cases, scholars have started to include waterscapes into the debate on post-neoliberalism (Bond, 2016). In itself, post-neoliberalism is a controversial subject: scholars suggested it may discursively encompass a continuum of adjustments to the present capitalist cris*es*, ranging from business-as-usual strategies (Brand, 2009) to neo-developmental interventions (Veltmeyer, 2012). However, it can represent the starting point of a counter-hegemonic project contesting the foundations of neoliberal capitalism (Bond, 2009; Peck *et al*., 2010). Despite its controversial status, the term can be adopted to denote an "epistemic terrain" (Brand, 2016) for the formulation of radical alternatives to neoliberalism that are influenced by the empirical observation of the (dis-)continuities in the neoliberalisation of the water sector.

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5 Neoliberalisation in South Africa. Case study: Johannesburg urban water provision

The debate over the recent history of South Africa, covering the first two and a half decades of democratic rule after the end of the apartheid regime, is without doubt very rich and complex. The process of building new institutions, renewing the administrative structure of the country —which was deeply shaped by fifty years of racist ruling by the white minority— under the political leadership of the parties which led the democratic transition has unfolded along non-linear, and possibly contradictory, pathways.

The relevance of the social, economic and spatial segmentation inherited from the regime, the country's development model, hinging primarily on the vast wealth of minerals buried in its underground, and its evolving role in the geopolitical space as a trading partner with the Global North and as a member of the emerging power bloc of the BRICS are some examples of the challenging specificity of the South African case.

Selecting a case study from the country to explore the broad theoretical argument presented in the previous chapters may thus be seen as far-fetched. Nonetheless, the history of the country offers a precise and extremely relevant chronicle of implementation, partial retrenchment and entrenchment of neoliberalisation of the water sector. The path-dependent and contested nature of market-oriented reforms in South Africa positively challenges the notion of a pure (and monolithic) form of neoliberalism.

The South Africa case exemplifies the "unfinished business" of neoliberalisation, which does not translate into the —advisable or regrettable— discontinuation of market-oriented policies and their substitution with a different approach to socio-economic development. Rather, neoliberal policies have been implemented, in this country as in others, in a fragmentary but nonetheless extensive way. In certain policy fields, as for example in the water sector, both market-oriented and universal welfare measures have been adopted. More troublesomely, the same political coalition, the Tripartite Alliance between the African National Congress (ANC), the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU) has governed (with a diminishing consensus) the country since the first democratic election held in 1994.

The interpretation of policymaking which conceives of it as bricolage rather than realising an established paradigm might be a useful tool to explain this mixed approach to reforms. Bricoleurs —actors in the policy space, endowed with diverse and at times conflicting interests and the capability of influencing the selection of courses of action— focus «on combining ideational elements to create resonance in the public and support in the political system —rather than upholding stringency in a paradigm» (Carstensen, 2011, p. 157). Bricolage theory of policy change makes room for strategic behaviour of actors, often explained by self-interest, and shifting loyalties and political priorities among elected officials. It furthermore helps grounding into real policymaking one of the characteristics of neoliberal ideas, namely their capability of constituting the reserve of knowledge for (bricoleur) policymakers belonging to disperse political traditions. It however has little to offer when it comes to determines 1. how and why a specific set of political ideas or policy suggestions enters the policymakers' epistemic horizon, and 2. why there are incentives to uphold widely unpopular policy strategies or discard popular demands. Both the problems, which cannot be explored in any further detail here, speak of the need to reconnect strategic (and self-interested) behaviour of individual policymakers to wider collective (organised and non-organised) interests that constitute the backbones of capitalist societies.

It is tempting to adopt a second, more theoretical, approach the problem of the unfinished South African neoliberalisation, which takes into account the role of social mobilisation in reshaping the path of reforms. I am referring to the —rather simplifying— rendition of Polanyi's double movement sketched in Chapter 3.4.

The transition from the apartheid state to modern South Africa has been characterised by policy experimentations which often failed to take into account the socio-economic reality of the country, as well as the political imaginaries and expectations that the fight against the regime has cemented among the citizens. They were met by popular opposition and led, as it was the case for the corporatisation and businesslike management of municipal water providers, to the renegotiation of policy implementations. Contrary to the simplified model of double movement, where the re-embedding of market forces is somehow ensured, the contestations of neoliberal policies cannot be said to have thoroughly re-embedded large sectors of socio-economic life into non-market arrangements. The new balance of forces between society and economy, so to speak, has proved mobile and possibly subjected to new rounds of neoliberalisation, with "ambidextrous" social policies managing the contradictions of the earlier round of neoliberalisation.

The localised and national struggles that marked the period following the unfolding of the modernisation plans (in particular around the late 90s early 2000s) were an aspect of a larger political uncertainty related to the macro-economic model to be applied to the young democracy. Here, another central theme of Polanyi emerges, namely the relationship between national balance of forces between the two movements and the international political economic regime and its geopolitical underpinning. The ANC, the country's main party, moved from a social-democratic agenda envisioned prior to the democratic takeover —and central to the party's electoral programme in 1994 (Webster and Adler, 1999)[15]— to the adoption fiscal consolidation, monetary stability, trade liberalisation and market-oriented reforms of public sectors, marked by the 1996 *Growth, Employment and Redistribution* (GEAR) programme. This turnaround has been linked to the threefold influence on ANC top officials' decisions of 1. the lobbying of South African financial and corporate community, with solid ties to transnational investment groups (Schneider, 2018), 2. the volatility of South African capital market in 1994-6, ending in a sell-off of South African currency by domestic and international investors (Hirsch, 2005, pp. 91-7), and 3. the close monitoring by the IMF and the WB of the transition period (Saul and Bond 2014, pp. 147-148). The Bretton Woods institutions,

[15] Despite the work of a left-leaning group of economists and trade unions' representatives was included in the macro-economic strategic plan adopted by the ANC, the *Reconstruction and Development Plan* (RDP), the document was subjected to several reworkings and contentious interpretations during the early years of the ANC government (Bond, 2000, pp. 89-121).

alongside providing direct financial aids[16], played the role of "knowledge banks" offering both policy suggestions and advisers to the government (Bond, 2000, p. 185). The capability of the Bank and the Fund to validate the strategies of South Africa's new government, and thus boost foreign investors' and trading partners' confidence, helped draw nearer the high ranks of ANC to the policy platform put forward by the two institutions —not unlikely the circuit of self-referential scrutiny discussed in chapter 2. The reliance on external consultants and imported expertise had a micro as well as macro relevance in the development of restructuring programmes, as will be highlighted in the discussion of case study.

The turbulent transition period, from the white racist regime to democracy —but also from the initial commitment of the democratic forces to revolutionise South African society to a more moderate and market-friendly growth strategy (Beresford, 2014)— was concluded by the presidency of Nelson Mandela (1994-99). The following two presidential terms of Thabo Mbeki (1999-2004; 2004-2008), son of another leader of the anti-apartheid struggle and a prominent figure in the liberation movement himself, were marked by economic growth (GDP grew at an average of the 3.7% annually real terms) but equal rapid deepening of the contradictions between redistributive aims and market-oriented policy strategies. Mbeki had had a central role in establishing GEAR as the government macro-economic plan (Gevisser, 2009, pp. 250-1), and his presidency followed in line with the prescriptions contained in the programme. Hirsch aptly summarised the economic orientation of South African government under Mbeki as «competing globally, restructuring locally», with the bulk of the economic strategy bending toward re-integrating South Africa in the global financial and commodity markets and triggering a sustained export-led growth (Hirsch, 2005, pp. 109-55).

The local restructuring of South African economy took the form of conservative fiscal policy, with inflation-targeting driving the Reserve Bank rate setting and the

[16] The IMF, for example, granted an $850 million loan to the country in 1993 after the establishment of the multiparty Transitional Executive Committee leading the country to elections. This loan has been scrutinised as a possible sign of direct influence from the Fund, through the well-known mechanism of conditionalities, on the economic choices of the new state. Padayachee and Fine (2018) have argued against this interpretation, supporting instead the view that government members willingly embraced the turnaround in economic programming.

attempts of the Treasury to cut government's deficit. The commitment to shrink the public sector share of the economy was set on track, so that: «[f]rom March 1997 to 2004, the government privatised eighteen state-owned enterprises, ranging from radio stations to SAA [South African Airways], raising about R26.8 billion, of which some R12 billion was used to service the national debt. In addition, but frequently overlooked, were numerous instances at municipal level of services being outsourced or public–private partnerships being formed». (Gumede, 2007, p. 128).

Despite the bettering of South African economic performance in the ten years of Mbeki's presidency, two critical indicators showed little if any improvement. Unemployment rate remained above the 20%, and its expanded measure (including people who have stopped looking for work) have been estimated at 37% (Marais, 2011, p. 177), with substantive shares of the labour force in informal or temporary employment.

Income inequality, as measured by the Gini coefficient, is the second central indicator. The country has the highest Gini in the world, and WB found that: «[b]etween 1996 and 2015, the Gini coefficient of consumption inequality rose from 61 to 63, peaking at 65 in 2006» (2018, p. 28). A rather more contentious matter is the effect on income inequality of the welfare measures implemented by the government. Social expenditures (cash transfers, e.g. social pension and grants, and in-kind) declined in the period of fiscal consolidation 1996-2002 and were then stabilised above 3% of GDP in the remaining years of Mbeki's presidency (and increased of 0.5% by his successor, Jacob Zuma).

The WB attributes a large impact of social spending and taxation on income inequality —estimating a reduction of 18 points of Gini after the two are counted in (WB, 2018, p. 27). Bond (2015) questioned the methodology adopted by the WB, on the premises that it fails to include the share of government spending accruing to top income earners (e.g. direct and indirect subsidies to business owners), and thus risks to artificially reduce the income gap.

A similar difficulty arises when the measurement of the poverty is taken into consideration. A South African government official report estimates that the poverty headcount declined between1993 and 2013 from 60% to 58% before social transfers and from 57% to 52% after social transfers (using the upper-bound poverty line of R733 per month in 2012, ca. €66 at 2012 exchange rate) (DPME, 2014) [17]. Seekings and Nattrass (2015, pp. 34-44) detailed the debate, often instrumental, regarding the true level of poverty reduction in the first two decades after the end of apartheid. Even without a proper quantification of this reduction, the picture given by the latest available statistical data is of a deeply rooted poverty among South African citizens. The 55.5% of individuals falls below the upper-bound poverty line (R992 per month, ca. €59). The 46.6% of black African households, the majority of the population (80.4%), live below the poverty line, as does the 32.3% of coloured households (7.2% of the population). By contrast, the 0.8% of white households (10.1% of the population) is in poverty. A black African household consumes on an annual average R67,994 (ca. €4,055), while a white households five times that much (R350,937, ca. €20,931) (Stats SA, 2018).

These stylised facts support the view that the national redistributive policies had achieved too little of a result in transforming the social structure inherited by the apartheid regime. The extension of a diminished welfare state to a larger number of beneficiaries can thus be interpreted as the "tokenistic" fix to the socially dysfunctional growth model chosen during the transition (Bond, 2014).

The push for contracting out and corporatise public service delivery, which brought within itself stricter cost recovery principles and revenue collection measures, fuelled protests in the municipal areas. New social movements, initially finding common ground with the segments of the trade unions threatened by the layoffs of

[17] Access to water is an important non-monetary indicator of poverty alleviation. It refers to the extension to all households of the physical infrastructures delivering clean tap water and collecting grey and black water. The 2011 Census registered an increase of dwellings connected to piped water (inside or in the yard of the property) from 60.8% in 1996 to 73.4% in 2011 and a proportional decrease of the reliance on communal taps (from 19.6% to 17.9%) and of the lack of piped connection (from 19.7% to 8.8%) (Stats SA, 2012, p. 59). The access to formal sanitation shown an improvement (from 49.1% to 57%) and the lack of access to any form of sanitation a sharp decrease (from 13.6% to 5.2%) —although over 37% of households still rely on non-piped forms of sanitation (e.g. pit latrines, septic tank toilets). These findings are in line with the 2018 Households Survey, which estimates that the 89% of households have access to piped water (inside, in the yard or outside the property) and the 83% to improved sanitation —despite a large geographical differentiation between regions (Stats Sa, 2018). However, connection to the network does not directly translate into ability to consume water, if the latter is not affordable. The latter problem is particularly relevant in South Africa, as it will be make clear in the next section.

public and municipal workers, were formed in response (Etzo, 2010; McKinley, 2005).

As Trevor Ngwane, activist and organiser of the Johannesburg-based Anti-Privatisation Forum, describes the social mobilisation was able to connect diverse aspirations and grievances in a common struggle:

> «The APF started [in 2000] as a campaign against privatisation of municipal services and of university education. So they were two strands: privatisation at Wits University, where 600 workers were going to lose their jobs, and did lose their jobs, and then the municipality wanted wholescale privatisation of…everything! [laughter] By then the plan was: if you cannot privatise, commercialise or corporatise [...]. But for activists involved, like myself, the struggle started before that. It was a struggle against neoliberal policies, beginning with the introduction of GEAR programme in 1996. I remember clearly, we had an organisation called CANSA, Campaign Against Neoliberalism in South Africa. It was NGO-like, but we wanted to be a movement, and it was doing research and a bit of advocacy. […] We started meeting in Soweto. In a way we were ideology without a cause, you know what I mean, we didn't have a [practical] end but we knew that neoliberal policies were bad. [...] [T]he APF [instead] had to respond to real issues on the ground. One of them was electricity, the other of course was the threat to municipal jobs [...].There were two lens involved: there were community activists involved, there was the left involved —included the Communist Party— there were the unions [...] COSATU was opposed to GEAR, I think they had a general strike once a year for 3 or 4 years against GEAR» (Trevor Ngwane, Interview, 3 July 2017).

The social unrest, the dissatisfaction of many South Africans with their living conditions —which helped driving a wedge between the ANC and the COSATU leadership (Pillay, 2008)— and the internecine fights between ANC factions brought the Mbeki presidency to an end few months short of its due date. The subsequent president, Jacob Zuma (2009-14; 2014-18), was destinated to overshadow his predecessor in unpopularity. Embroiled in scandals before taking the helm of the government, during his second term Zuma became the target of several corruption allegations, which progressively uncovered his links to a network of patronage and political influence built by the Gupta business family (Desai, 2017; Myburgh, 2017). The concept of "state capture" became a usual media reference to the Zuma's presidency. According to the —rather loose— semantic extension of the term, state capture denotes an orderly use of state power and resources, aimed at the remuneration of personal as well as clients' interests, realised through malfeasance and cronyism (Martin and Solomon, 2016). State capture is thus akin to the more scientifically rigorous, but not less controversial, concept of neopatrimonialism (Mkandawire, 2015), although its ambiguity potentially allows for including a wide range of special interest groups (e.g. the trade unions, or the recipients of social grants) to the list of the political *clientes*.

It is not possible here to dive into a more detailed analysis of recent evolutions of South African politics. It may be nonetheless useful to present, as a summary of this brief historical excursus, a different account of Zuma's figure. For dethroning Mbeki, he took advantage of the popular dissatisfaction for the persistent inequality and harsh economic measures under neoliberal policy programs. However, the Marikana massacre the 16th of August 2012 —when 34 striking mine workers at the local Lonmin corporation's platinum mine were killed by special police— triggered a foundational crisis of legitimise for Zuma, his allied factions within the ANC, and COSATU (Gumede, 2015). Moreover, the post-neoliberal rhetoric of the administration was jeopardised by the reality of state-enforced class repression (Ngwane, 2017). In the aftermath of Marikana, the National Union of Mineworkers (NUM), whose members were among the workers engaged in the wildcat strikes which culminated in the massacre, lost support and membership among the mineworkers. The National Union of Metalworkers of South Africa (NUMSA), the largest affiliated to the COSATU and the most militant, was expelled from the federation in 2014 after breaking with the federation leadership and withdrawing electoral support for the ANC (McKinley, 2015).

Inside the ANC, the ANC Youth League's leader Jiulius Malema, former strenuous supporter of Zuma, exited the party in 2013 and funded the left-nationalist Economic Freedom Fighters (EFF), which engaged in a bitter opposition to Zuma and the ANC, and would have to become the third largest party of the country.

With a weakened COSATU and new oppositions on his left, Zuma's luck depended on his capability of performing the same role that Mbeki had ten years before: delivery economic stability and state support for the business community. The conjuncture his government faced, however, was much more severe than the late 1990s recession. The 2008 crisis and, even more relevant, the 2014 commodity price crash had serious repercussions on South Africa GDP growth, on the stability of its currency and the serviceability of its debt. The neoliberal recipe would have called for tough austerity measures for reining in the deficit and restore market confidence. The administration, despite slowing the pace of state expenditures in social programmes since the 2014/15 budget (NT, 2019), proved reluctant to embark in a new round of neoliberalisation, particularly in the sector of state-owned enterprises (Southall, 2016). After the ousting of Zuma in 2018 and a narrow victory for the ANC in 2019 elections, the government of the new president Cyril Ramaphosa seems keen to resume the logic of structural reforms[18].

The ruling party difficulties under Zuma reverberated at the local level. After governing Johannesburg since the liberation, the ANC lost the city to a coalition of opposition parties in 2016. A power compromise between the centre-right Democratic Alliance (DA) and the EFF was struck to govern the economic capital of South Africa. The new mayor, Herman Mashaba —a self-styled libertarian entrepreneur—has announced his commitment to "pro-poor" investments and to ending the arm's length principle for municipal service provision.

5.1 Water provision in transition

Before considering in detail the case of Johannesburg water provision, it is necessary to briefly take into consideration the regulatory framework for water and sanitation established after the transition. The governance and provision of water services has been organised in a nested hierarchy, which allows for a relatively high degree of decentralisation and autonomous management by the corporatised providers. The Department of Water and Sanitation (DWS) —before 2009

[18] The 2019 Budget has a programmatic commitment to fiscal consolidation and state restructuring, making clear that the priorities of government are: «[n]arrow the budget deficit and stabilise the national debt-to-GDP ratio. Support restructuring of the electricity sector, and reduce the immediate risks Eskom [the state-owned electricity provider] poses to the economy and the public finances. Renew economic growth by strengthening private-sector investment, improving the planning and implementation of infrastructure projects, and rebuilding state institutions» (NT, 2019, p. 2).

Department of Water Affairs and Forestry— has the apical position in the architecture, devising national plans for the sector and oversighting lower-level bodies.

The governance structure resulted from two legislative initiatives which dealt with the problem of homogenising water provision vis-à-vis the geo-institutional fragmentation characterising the apartheid regime —with limited, if any, clean water and sanitation provision to the racially segregated sub-urban townships, and the bogus self-management in the “independent” Bantustans (Muller, 2002).

The 1997 *Water Services Act* established the Water Boards, regional state-owned bulk water providers, the Water Service Authorities —i.e. the Municipalities, which have to supervise water provision to final customers— and the Water Service Providers (WSPs), retailers of water services which may overlap with the Municipality or a municipal owned entity, or being contracted out to public or private firms (a principle adopted by the 2000 *Municipal Service Act* for service provision in general).

The 1998 *National Water Act* replicated the unbundled structure for water resources (i.e. raw water catchment and storage). The national territory was divided between nine Catchment Management Agencies (CMAs), which were task with devising the strategic plan for a geographically defined water management areas, allocating water license to (wholesale) users, engaging local bodies in participatory governance and overseeing pollution incidents. Before 2017, only two CMAs had been rendered fully operational, thus the DWS was performing *ad-interim* tasks for the other seven water management areas. Currently, the DWS has proposed the re-centralisation of the nine water management areas under a single CMA. Sub-regional regulatory agencies had been established, notably the Water User Associations —bringing together public and private stakeholders for the management of local raw water schemes, for e.g. irrigation (DWAF, 2003).

The prices of water reflect the hierarchical yet decentralised governance structure. The CMSs, thus the DWS, charge a Water Resource Management Charge for recovery the costs associated with management and environmental conservation.

The development of primary infrastructures (e.g. damns, storage basins) is carried out by two state agencies, the Water Trading Entity (WTE) and the Trans Caledon

Tunnel Authority (TCTA). The WTE, a supposedly ring-fenced entity under the DWS, manages state-fund infrastructural projects. It carries out its mandate by charging raw water prices to licensed users, comprising CAPEX, OPEX and a return on assets (calculated as the 4% of the depreciated asset values). TCTA, another ring-fenced entity, funds new project by rising capital in the market and levies infrastructural charges which repay project-specific funding costs (Ruiters and Matji, 2015).

Water Boards and their captive customers, the WSPs, have to be financially sustainable and to abide by the principle of cost recovery. The 1994 *White Paper on Water Supply and Sanitation*, translating the national RDP platform to the water sector, stressed that: «services should be self-financing at a local and regional level. The only exception to this is that, where poor communities are not able to afford basic services, Government may subsidise the cost of construction of basic minimum services but not the operating, maintenance or replacement costs» (DWAF, 1994, p. 18). It thus the steered the system towards full cost recovery and the devolution of operative and fiscal authority to sub-national entities, reducing the state's responsibility to minimal interventions (McDonald, 2002a).

Regional and local providers were given discretion in determining the level of their tariffs, provided that they covered operating (comprising the input cost of raw water discussed above) and capital expenses and obtained a surplus for financing future investments (Vawda *et al*., 2011).

While Water Boards constitute independent legal entities, an thus have a direct — inside an upper-limit established by the Treasury— access to capital markets for funding their infrastructural projects, the unbundling of WSPs from the Municipalities didn't evolve toward establishing financial autonomous entities, while the contracting out to private operators did not become the prevalent form of management (Bayliss, 2017).

The 1994 White Paper, while establishing cost recovery as the strategic goal of provision, recognised the importance of ensuring a "basic access" to water and sanitation services. It envisioned a social tariff for low consumption, partially financed by the public budget, and proposed a three blocks tariff —with an explicit reference to demand management rather than cross-subsidisation— which would later become the mandatory tariff structure in South Africa (Eales, 2011). The subsequent legislation reaffirmed the centrality of the constitutional right to access basic water and sanitation (DWAF, 2013).

However, the initial effect of the new system of provision was not as smooth as envisioned by legislators. Serious issues of affordability of service and wide-spread cut-offs followed (McDonald, 2002b), and Ronnie Kasrils, at the time the Minister of Water Affairs and Forestry, recognised that the principle full-cost recovery was having perverse effects on access to water (Kasrils, 2001).

During 2000 local government electoral campaign, Mbeki announced the rolling-out of a new policy for ensure affordable access to water: the Free Basic Water (FBW) policy. It recommended municipalities to supply the first 6,000 litres (or 6 kl) for each household for free each month, or 25l per person per day for a household of eight, in line with the minimal level of provision identified in the 1994 *White Paper* (Muller, 2008). During the same year, the *Municipal System Act* was passed, which included the recommendation of free basic provision to poor households[19]. The legislation identified three financial channels for sustaining the provision of basic service: cross-subsidisation, the equitable share (a dedicated public unconditional grant), and access to national or provincial grants.

In 2002 the DWAF put forward guidelines for municipalities implementing FBW. The Department offered three main strategies for balancing cost recovery and FBW: 1. a three blocks tariff structure, where the first block (0-6 kl) was provided free of charge; 2. a means-tested credit on water accounts, covering the cost of the first 6 kl and 3. the diversification of the level of provision, with users receiving free service denied the access to higher consumption level. Detailed technical advice on pressure and flow control devices were also given, so that the municipalities could restrict water access, where needed, to the FBW quota (DWAF, 2002).

These legislative acts unambiguous tried to induce demand control while providing rationed free access to water services.

[19] In 2005 Municipal Indigent Policy Framework expanded the original FBW to electricity, sanitation, and refuse removal. Municipalities were still allowed a high degree of discretion in shaping their support strategy, the Municipal Indigent Policy, provided that they met the minimum national standards of 6 kl FBW, 50 kWh of electricity, 3-4 kl for sanitation, and the weekly and biweekly collection of biodegradable and recyclable waste, respectively.

Mike Muller, Director-General of DWAF between 1997 and 2004, explains this demand management in terms of positive incentives:

> «we had an inclusive system —that, sure, gave some benefit to people who really didn't need it— but if you read the literature on incentives in economics you know that some kind of incentives work better than others […] if you managed to reduce your water consumption you would feel a good citizen and [you were] being reward by society» (Mike Muller, Interview, 2 September 2017).

Ruiters (2009) has proposed, on the other side, to interpret the policy as a tool for correcting the harsh effects of a too hasty neoliberalisation of water provision without compromising the underlying trajectory set in motion by 1994 *White Paper*. By constructing a legitimate exception to the volumetric charge at cost-reflective prices, the policy entrenched the latter at the centre of provision. The allocation of water exceeding the free allotment would be treated as the willingly consumption of an economic good, allowing the WSPs «to be more "legitimately coercive" in recovering costs from the can pays (a category that includes a large strata of working poor)» (Ruiters, 2009, p. 303). In this perspective, FBW is inseparable from the technical arrangement that restrict "unlawful overconsumption". The installation of devices for demand management, justified by the concern for better targeting the poor and thus ensuring the sustainability of FBW, had the potential for reshaping the system of provision. On a side, relatively simple devices as flow restrictors can stabilise consumption patter for those users at risk of falling in arrears. On the other, advanced metering technology such as the prepaid meters were promising to get rid of the problem of arrears and non-payments altogether. As opposed to the regular post-paid meters that are installed in the better-off neighbourhoods, prepaid meters need to be topped up in advance and would self-disconnect when the charged quantity of water is used up. These meters would have distributed the 6 kl of FBW on top of the prepaid amount, one of the many technical solution to the problem of non-payment offered by the 2002 *Guideline* for the implementation of FWB.

The possibility of smoothly establishing a purely technical, and depoliticised, governance of water consumption proved to be a far-fetched assumption when the rolling-out of the new meters encountered strong organised and spontaneous resistance, as the case of Johannesburg will illustrate.

5.2 Johannesburg Water: background

As the largest metropolitan economy in South Africa, and among the first in the African continent, the Johannesburg is branded as a “world-class African city”. Nevertheless, the social development of the city closely resembles the highly uneven national path to growth which followed the end of the apartheid. The municipality inherited an urban landscape marked by spatial segregation along racial, and socio-economic, lines.

The four local municipalities forming the urban area of Johannesburg were merged into one metropolitan unit with a single tax base in 1995. The need to sustained budget spending in order to redress this unevenness, coupled with a difficult integration of revenue collection and the reduction of grants from the national government (Bond, 2007), led to the municipal fiscal crisis of 1998.

The crisis bore two relevant consequences: (1) it prompted the discussion over the policy framework for the financial operations of local authorities, and (2) it set the stage for the *iGoli 2002* city plan, which restructured municipal finance and organisation. The legislators sought to achieve financial discipline through decentralised fiscal autonomy, inducing the local authorities to borrow on the capital market. The 2003 *Municipal Finance Management Act* fulfilled these policy prescriptions and defined the boundaries for municipal borrowing, establishing the monitoring system over local finance and the terms for debt restructuring (Brown *et al*., 2013). The *iGoli 2002* programme represented an extensive reform of City o Johannesburg (CoJ) administrative structure.

The municipality retained crucial administrative functions, such as strategic planning and finance, but it decentralised a set of competences to semi-autonomous municipal owned corporation. Mike Muller recalls the organisational challenge for water provision at the centre of *iGoli 2002*:

«Johannesburg Water was created out of an amalgamation of a large number of different

> administrations, and the job of creating a company supplying water to 4-5 million people is a very difficult one […]. At the time of *iGoli 2002,* although there were people that were definitely interested in establishing private utilities as a way forward, there were also people that were interested in establishing public utilities as a way forward. But they both had a common problem: how do we integrate these very different organisations with very different history, very different level of service, into one effective company, one effective organisation? They were given the opportunity of doing it because of the utility structure that has been set up in Johannesburg, which gave the operator a degree of autonomy» (Mike Muller, Interview, 2 September 2017).

The corporatised agencies carried critical tasks, such as municipal services, and were managed by independent boards under commercial principles, while the ownership remained entirely with CoJ (Cartwright and Marrengane, 2016). In 2001, the management of the newly established JW was awarded to an international joint venture of private operators, led by Suez Group, with the five-year mandate of improving the financial and operational performances of JW. The management contract —a lighter form of private-public-partnership than the experiments in Built-operate-Train and Transfer agreement experimented in rural areas around the same years (Bakker and Hemson, 2000)— consolidated the corporatisation of the provider. The transfer of expertise and organisational knowledge from international partners was seen as a prerequisite for establishing a new technical and organisational culture in the utility.

> «To choose to give the management contract to a company that has a track record of doing that kind of work, rather than invite a management consultant in, rather than try to create the expertise from different part inside organisation with all the political problem that it would have brought, was quite a sensible approach. And they didn't get the concession, they had a management contract: Suez was a management contractor, their job was to set-up the system, their job was to set up this new organisation that was called Johannesburg Water, and put a proper system in place to run it. [I]f we start from these background and we say: this is the history of amalgamating racially separated organisations into a new set of boundaries, into a new organisation, you see that it is not an example of the simple paradigm of privatization» (Mike Muller, Interview, 2 September 2017).

The contractors played thus the role of mediator of the new rationale of water provision, while shaping the trajectory of development of the corporitised utility since its inception.

The South African Municipal Workers Union (SAMWU), the largest union of municipal employees, was among the member of the coalition opposing the corporatisation:

> «[with] *iGoli 2002*, the utilities have been treated as separate corporations with the mandate to report to the City, but it was purely formal. […] We opposed the plan, and we were given [by the Municipality] a feasibility study showing, according to them, the great efficiency of municipal services under private management. We were still unconvinced. […] The Union pointed out that the situation was bad for workers. A system of differential wages [was established] between municipal services, for workers performing the same tasks, a clerk in Pikitup [municipal owned entity in charge of waste collection] or in Johannesburg Water, for example. The Union has ever since had a "equal work, equal pay" position in its bargaining with the Municipality» (SAMWU Representative, Interview, 11 September 2017).

The former Director-General of DWAF strongly objected to the notion that the newly established municipal service providers had a "purely formal mandate" toward the Municipality:

> «Why we [the elected representatives] set up a utility organisation? Because we want you to implement the policies, we are going to provide you the policies, this is a framework within you operate and it is how the organisation operates. And here are the things we expect you to do: invest enough to keep the service running, make sure that everyone has access, but when it comes to tariffs setting and free access, or subsidized access, these are political decisions that will be taken and given to you. And you will implement them […] The notion that somehow the company has a separate existence, and would make these almost ethical decisions, I think it's just misplaced. Particularly in the case of public utilities, where the control has always been with public representatives» (Mike Muller, Interview, 2 September 2017).

The fact that the public officials retained a degree of political control over important aspect of the city's political economy, while shifting the responsibility for crucial decision in terms of social rights and redistribution of wealth to an independent corporation, acting in conformity to a technical and economic rationality, is consistent with the definition of governmental depoliticisation.

Under Suez management, JW focused on implementing a comprehensive programme of revenue enhancement and demand management, targeting the underperforming revenue collection and high level of non-payment in deemed, i.e. unmetered, consumption areas. These areas were the working class black-majority neighbourhoods, that suffer from the radical deprivation imposed by the apartheid regime. JW started rolling-out its strategy for cost recovery in Soweto, the largest township home to over 1 million people, during the *Operation Gcin'amanzi* ("conserve water" in isiZulu).

> «One of our critiques was that the company […] was doing cherry-picking: this is the thing. They would prefer taking over the water services for cities and municipalities where they are certainly going to make money. […] The problem is that one point of GEAR was to reduce money to the municipalities, so the of the local government find themselves starved for money. And they were pushed to find money from the private sector […] wherever they got the money, was it private bank or the World Bank for that matter, […] the condition was: you have to structure things so that the cash-flow lines are clear […] otherwise we will not have our money back» (Trevor Ngwane, Interview, 3 July 2017).

The programme sought to control water demand and enhance revenue collection by retrofitting properties —an unavoidable cost to induce communities to buy in (JW, 2013)— and through the installation of prepaid meters (Smith, 2006). The prepaid meters were programmed to deliver the 6 kl per month of FBW and, if not topped up, self-disconnect. As a further benefit for residents installing the prepaid, JW offered a 20% discount on water bills for four years, and a gradual debt write off, over a three years period, for those households complying with the instruction of not to tamper with the meter or access illegal connection (Smith, 2011).

The introduction of prepaid meters came in combination with the increasing block tariff structure adopted by JW, which was often new to residents, previously charge a flat rate. This combination resulted a restriction and regimentation of water consumption rather than expansion of affordable provision (Harvey, 2005; von Schnitzler, 2008).

Reducing consumption of municipal services in low-income areas, where the default or overdue payments were most likely to occur, was an aim JW shared with the corporatised municipal provider of electricity. Similar problem of affordability ensued, and the number of disconnections started soaring. The Soweto Electricity Crisis Committee, later to merge with other community group to form the APF, was started in response to the disconnection crisis (Bond and Ngwane, 2010).

> «In the townships there were […] problems with service delivery, […] all these things were coming together. In Soweto we decided to take up the question of electricity, because at that time it was common business cutting off electricity […]. The water campaign was built on the success of the campaign against electricity [privatisation]. In time, it became the Anti-Privatization Forum, where municipal privatisation, commercialisation covered much more than just water: It was water, electricity, roads, parks, even the fruit market, buses. Even the libraries wanted to rise fees, the zoo [laughter]. […] Then problems of service delivery increasingly […] threw in communities' structures. Other committees came to us, with similar problems, like: they are busy cutting our electricity, or they threatened our water. So, they joined the APF. We were also going out where there were some kind of struggles, we would go and say: this is part of privatisation» (Trevor Ngwane, Interview, 3 July 2017).

The APF and allied movements targeted both practical issues, through acts of civil disobedience such as reconnecting households to the electrical grid or the water network, and the underlying extension of market principles to essential social services. Their campaign successful re-affirmed the political content of service provision, countering the social depoliticisation inscribed in the economic treatment of water, which tends to turn the system of provision in a private matter between customers and a (potentially private) supplier.

It is interesting to note, in Trevor Ngwane's words, the justification given for the implementation of *Operation Gcin'amanzi*:

> «Here in Johannesburg the water infrastructure is very old. The municipality was saying that we had to install prepaid meters so that, first, they know where the leak is and, second, somebody will pay for the water. What someone was saying was: no, we just need to fix the leaks! But the answer was: install the meter and then teach them that they have to pay, or let's bring in the police to make sure that they're going to pay» (Trevor Ngwane, Interview, 3 July 2017).

The connection between water infrastructure improvement and cost recovery obtained by the strict means of prepaid meters is an example of the discursive ineluctability of the chosen system of pricing and overall rationale of provision.

The campaign culminated in 2007 with the legal case against the CoJ and JW, initiated by residents of the Phiri neighbourhood in Soweto. In the *Mazibuko & Others vs City of Johannesburg & Others* case, the applicants called into question both the tokenistic amount of FBW allocated and the selective installation of prepaid meters only in low-income black majority areas. The initial pronouncement from the High Court confirmed the claimants' requests, ruling FBW to be extended to 50 litres *per capita* per day, and deemed that prepaid meters were discriminatory. The verdict, substantially confirmed in appeal, was entirely reversed by the Constitutional Court. The Court ruled in favour of the 6 kl FBW policy, and maintained that prepaid meters were lawful.

In the midst of the campaign, the management contract to Suez expired and was not renewed (van Rooyen *et al*., 2009). The CoJ readministered its power to appoint the members of JW board, while the corporatised structure remained unchanged. The provider faced the same central problem of reconciling cost recovery and provision of water at a socially affordable level.

Despite the partial success of its initiative, and the growing number of protests related to service delivery in local communities, by the late 2000s the APF faced a severe organisational crisis, which led to the weakening, first, and then the fading of its influence as organiser of social mobilisation (McKinley, 2016).

5.3 Johannesburg Water: operations and finance

The CoJ relies extensively upon service revenues for financing its operations. Electricity and water bills constitute the two main items in the revenue budget, accounting for 32.7% and 22.1% of total revenues in 2016, respectively. The city has experienced a trend of service revenue growth over the past decade, which critically contributed to the financial sustainability of the municipal budget. Over the 2005-2014 period, the revenues grew of 167% in nominal terms and 58% in real terms (SACN, 2017a).

The municipality depends on two state-owned enterprises for the supply of both electricity and raw water. The stable expansion of the municipal service charges is partially explained by the rising cost of bulk supply.

Eskom, the state-owned electricity providers, which has required to the sectoral regulation subsequent annual steep increase of its tariffs, for financing a new coal power plant and ending the power generation shortages it has experienced since 2008. The consequences of Eskom's rising prices have been felt across the economy —they increased of 114% in real terms in the period 2008-13, and kept rising at a slower pace ever since (Deloitte, 2017).

The water board providing bulk water to the Gauteng Province, Rand Water, has increased the tariff for municipalities consistently since 2010. While inflation increased 5.3% on average each year (OECD, 2017), Rand Water has risen its tariff roughly 11.6% each year between 2010 and 2016 (RW, 2011; 2016). JW has correspondingly adjusted its tariffs to match the more costly bulk supply. Nonetheless, JW has retained a retail margin over the water supply since 2014. For example, the 2017/18 fiscal year, the city set the tariff for water services 12.2% higher than the previous year, exceeding Rand Water's projected increase by 2% (CoJ, 2017a).

There is evidence that this sustained growth in charges hampers the ability of households to afford water services. JW has a high level of bad debt coupled with fluctuating success in revenue collecting, in line with the trend of the municipality as a whole (CoJ, 2016). For the 2017/18 fiscal year, the municipal company reported 18.25% of bad debt as percent of revenue —i.e. allowance for the debt impairment was R1.8 billion, out of R10 billion revenue from sales (JW, 2018). This was by no means an exception: the operations of JW during the past decade have been characterised by the growth of outstanding and overdue debt.

The reasons behind the level of non-payments are not unanimously reduced to the increasingly unaffordable tariffs.

The explanations include both the inability and unwillingness to pay (FFC, 2011). The latter, described as the conscious defiance of payments, has been often associated in South Africa to the "culture of non-payment" stemming from the practice of rates boycotts as a form of resistance to the apartheid regime in the 1980s. However, the overall dissatisfaction with the delivery of services may help better explain the low rate of compliance with bill payments. A recent survey from Ipsos set the level of customer satisfaction with service delivery in the city to 59% (IPSOS, 2017). The figure provided by JW is above the municipal average at 69% (JW, 2016a).

The relatively large section of citizens dissatisfied by the state of public services is echoed by the frequent demonstrations in deprived communities targeting the poor level of service—what became known as "service delivery protests" (Alexander, 2010; Chikulo, 2016). The explicit reason and the intensity of these protests vary significantly, but their occurrence remains high (Wasserman, Chuma and Bosch, 2018)[20].

> «When [a community] looks across the river and sees another community with a problem which was addressed..[its] idea is that you have to get the state involved - it's called the "smoke that calls", burning tyres so that you get the attention of the State» (Trevor Ngwane, Interview, 3 July 2017).

The municipality and JW, however, have held a decade-long assumption that low levels of payment are firstly and chiefly to be attributed to inefficient billing systems and commercial water losses. The city had thus no second thoughts in approving, in 2017, a new tariff structure which eliminates the free first block for consumption under 6 kl per month (CoJ, 2017b).

The water tariffs presented in figure 5.1 and 5.2 represent the new tariff structure, which excluded the FWB. Note that the prepaid connections figure 5.2) receive a better rate for low-levels of consumption (up to 10 kl), as an additional incentive to install the meters together with accumulated debt write-off, but see a steeper rise of

[20] The interpretation of service delivery protest as a "rebellion of the poor" (Alexander, 2010) has been challenged on the premise that it is unclear «whether we have service delivery protests because of service problems or whether service delivery protests are actually about mechanisms to gain access to benefit beyond the services […]. In many cases what we see are local political battles fought out through service delivery protests. And it is of course very convenient for us to portray it as [connected to] service delivery because then it seems to be a critique of the system, but actually what they reflect are the political challenges within communities» (Mike Muller, Interview, 2 September 2017).

higher blocks as a demand management measure.

The structure of the tariff blocks, which should ensure the transfer of benefits from better-off households to low-income ones, has attracted criticism since its inception.

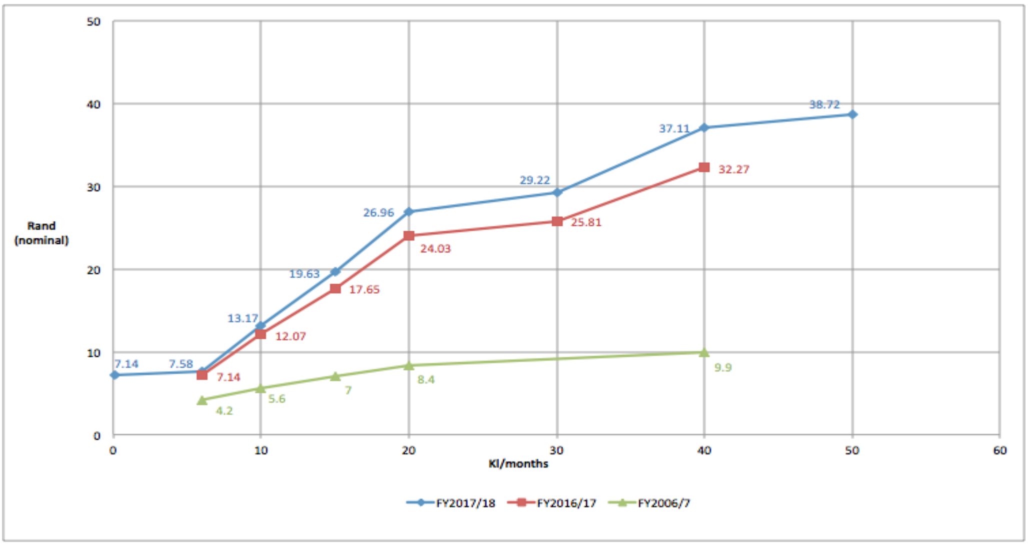

Figure 5.1, Water Tariff Structure. Residential Metered Connections.

Source: author's elaboration of CoJ, 2006; CoJ, 2017b.

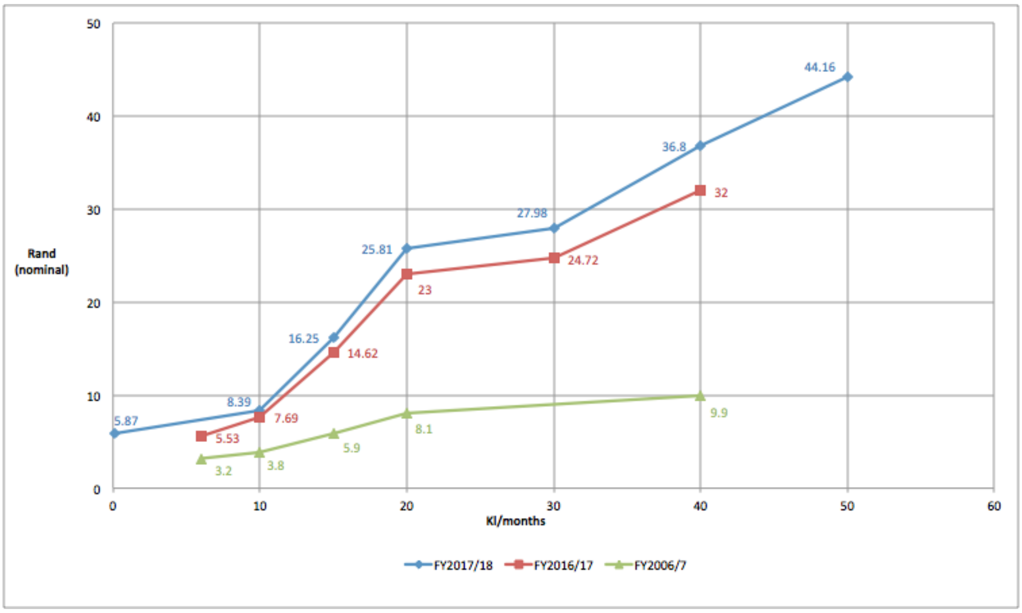

Figure 5.2. Water Tariff Structure. Residential Prepaid Meters Connections.

Source: author's elaboration of CoJ, 2006; CoJ, 2017b.

As argued by Bond and Dugard (2008), the tariff curve traditionally adopted by

JW rises steeply after the formerly free block (the 10-15 kl and 15-20 kl blocks), if compared to the higher-end blocks (20 kl to 30 kl).

The tariff structure prices water, in excess of the basic lifeline, at an immediate high level for poorer households. The doubts about the tariff design are supported by the findings of Burger and Jansen (2014). The authors tested the IBT structure, including the FBW first block, for the benefits it can pass to the customers in different income distributions. Their findings reinforce the view that the examined IBT disproportionately favour the households in the middle of the distribution rather than the ones in the bottom deciles.

The detailed comparative study of the metro area's tariff structures conducted by Baberton and Mukotsanjera-Kowayi (2015) shows the regressive nature of the design of CoJ's present tariffs. The households in the lowest income and consumption brackets are found to pay up to 16.8% of their income in municipal rates, while the households in the uppermost income bracket are contributing 6.8% of their income. The balance between the affordability and cost recovery for water service appears to favour the latter in the case of JW.

The pressure on households' budget is to be contrasted with the positive effect of cost recovery on JW's capability of financing its operations and undertaking infrastructural projects. While the municipal owned entities have a managerial autonomy and a ring-fenced budget, the city exercising oversight on the subsidiaries budget decisions and routinely transfers borrowed finances to its subsidiaries at market interest. As noted by Trevor Fowler, CoJ City Manager in 2011-16, the ring-fenced clause in this respect «is little more than an accounting tool»[21]. JW thus balances relative managerial and financial autonomy and integration in the city's investment strategy and overall financial position.

While local governments are required to exercise a high degree of fiscal autonomy, state transfers continue to represent a sizable share of municipal budgets' funding for infrastructural investments. In the case of CoJ, national transfers and earmarked grants contribute roughly a third of capex budget. The municipality planned to invest R27 billion in infrastructural projects over the next three years (CoJ, 2017a). For fiscal year 2017/18, R8.6 billion was funded by cash surplus (23%), conditional

[21] Personal communication to the author, September 2017.

and unconditional national grants (29.2%), borrowing from the capital market (34%), and by other sources (14%).

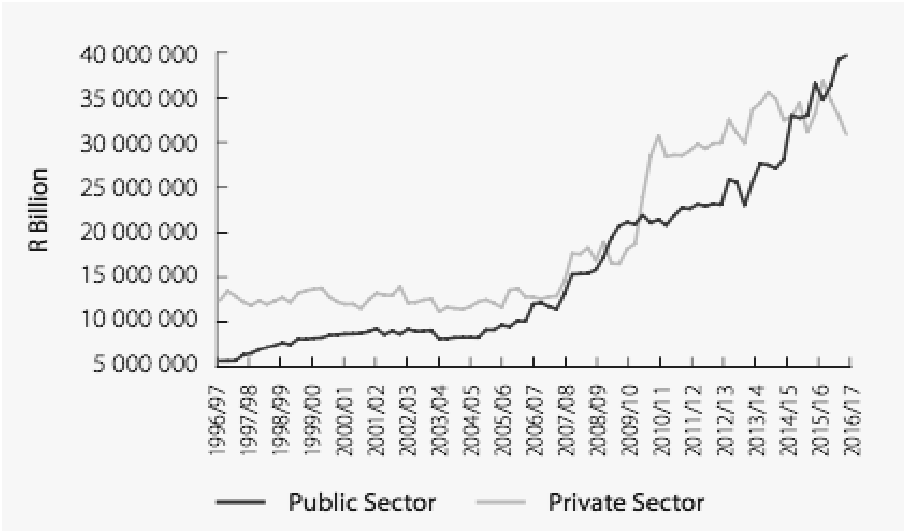

Figure 5.3. Municipal Debt Holders, SA.

Source: NT (2017).

As discussed in the previous section, local financial autonomy via borrowing was a long-term goal of the national government.

The reengineering of municipal funding demonstrated its effectiveness by allowing debt to flow into municipal projects in the run up to the 2010 FIFA World Cup. The total debt of local authorities, after being stagnant for the first half of the 2000s, soared from R18.7 billion in 2005 to R43.1 billion in 2011 (NT, 2011; 2016). The trend was consolidated in the aftermath of the sport event, with total municipal outstanding debt reaching R68.1 billion in 2018 (NT, 2018). The debt of the eight metro municipalities constitute the 89% (R56.2 billion) of entire municipal debt (NT, 2017). Both private and public lenders are municipal creditors, with public holders owning 56% of the municipal debt (R34.7 billion) and private lenders reducing their share from R32.3 billion in 2015/16 to R27.1 billion in 2016/17. The ownership pattern of municipal debt changed substantively over time (see figure 5.3). Historically, the main private creditors have been commercial banks rather than institutional investors, where the main public institution and by far largest single creditor is the Development Bank of South Africa (DBSA).

The CoJ stood well ahead of the development of local financial sector. The first municipality in the country to issue a bond in 2004, the city has recurred extensively to long-term borrowing for financing its infrastructure investments. CoJ's total outstanding debt was R21.8 billion against a budgeted revenue of R44.3 billion, or 49% debt to revenue ratio, in the last quarter of 2016/17 (NT, 2017). Johannesburg is the most leveraged among all of the South African municipalities and has the largest share of total local government debt.

In the case of JW, conduit financing—conveying long-term funds obtained by the municipality from loans or bonds— figure prominently in the corporation's budget. JW outstanding debt increased from R2.1 billion in 2007 to R4 billion in 2016 (CoJ, 2007; JW, 2016a). The debt-to-asset ratio fluctuated above 50% over the period, as the increase in debt translated into an expansion of the asset base. The company repaid R345 million in interest in 2016, at an average interest of 10.3% (CoJ, 2016). The presence of a substantive debt from private and public investors is not surprising in the utility sector, in light of the capital requirements for infrastructural investments. Understanding in which direction these funds are spent is paramount to assess the usefulness of the accumulated debt burden. Although a detailed analysis of JW capital budget cannot be presented here, it is worthy considering the intervention deployed by the provider to deal with the high level of water unrecovered by billing, i.e. Unaccounted For Water (UFW)[22].

The problem has been highlighted in the company's priorities since its creation, namely with the campaign for tackling the level of financially underperforming water provision as the rationale for the contested "Operation Gcin'amanzi" discussed above. The company resumed the programme, renamed the "Soweto Infrastructure Upgrade and Renewal Project", after the Constitutional Court's pronouncement on the lawfulness of prepaid meters. In 2015, JW Managing Director asserted that R1.1 billion has been invested in the project since 2004, out of a total cost of R1.7 billion (CoJ, 2015). By the year 2017/18, the programme delivered 150,581 prepaid meters of the target 183,945 (JW, 2018). The

[22] Since 2014, JW adopted the international standard of Non-Revenue Water (NRW) for calculating the level of water losses. The NRW differs from UFW in that it adds the unbilled authorised consumption (e.g. free public consumption) to physical (e.g. leaks) and commercial (e.g. unpaid bills) losses. For the sake of consistency, the level of UFW is here considered.

intervention, which will be expanded to other low-income areas in the city, aims to stabilise the cash flow of the company and increase its revenue base, thus enhancing the financial position of JW (JW, 2015a). However, the actual payments, while improving on a year to year basis, remained for each year below the budgeted level, e.g. 81.9% in 2017/18 against a budgeted level of 85.8% —the latter being progressively reduced in line with actual performance, e.g. budgeted level stood at 93.9% in 2016 against an actual collection of 84% (JW, 2016a; 2016b).

If it is true that the overall level of UFW has decreased since the resumption of the project (2011: 30.3%; 2016: 22.8%), the reduction of unbilled consumption (2011: 17.2%; 2016: 6.3%) was matched by the increase of water losses from leaks and bursts (2011: 13.2%; 2016: 16.3%). Moreover, it is useful to remind that the company experienced a growth of bad debt on receivables over time, which should be taken into account for better assessing the actual effect of the reduction of commercial losses on revenue generation.

The revenue enhancement strategy has to be contrasted with the significant historical backlogs in asset renewal. Pipe bursts, causing frequent supply interruption and loss of water, increased by 17% in 2016, to 319/100km (JW, 2016a, p.76). The number is staggering in comparison to the reported bursts in the city of Cape Town: 31/100km (CoCPT, 2016). The planned replacement of 900 km pipes before 2017, with an estimated useful life of two years (JW, 2013), has been cut down to 709 km, of which 461 km were completed between 2013 and 2016. The company has recognised the positive correlation between capital expenditures in the renewal of the network and the decrease in UFW from leakages (JW, 2015b). Nevertheless, only in the financial year 2015/16 the expenditures for upgrade and renewal exceeded the investments for revenue enhancement programmes (JW, 2016a).

The choice of concentrating capital expenditure in the revenue enhancement programmes rather than in infrastructure replacement can be explained, in simple terms, by the attempt to stabilise the cash-flow of the municipal corporation vis-à-vis the growing bad debt of its customers. At this level, the revenue enhancing strategy does not seem to have yield the expected results. It seems to demonstrate a certain institutional inertia inside JW management, carrying on the project inherited by the Suez-led joint venture. However, JW infrastructure programmes should be reconnected to CoJ financial strategy, since the city operates as the financial intermediary for JW access to funding. The decision to invest in the costly replacement of existing assets, almost certainly debt-financed, would require the consent from the city to increase its aggregate leverage. On the other hand, alternative strategies for reducing the level of non-payments, which take into account affordability of both the level and the structure of tariffs, seem unlikely to be implemented. The improvement of the revenue stream keeps the creditworthiness of CoJ in check, allowing for relatively cheap new borrowing for financing its flagship capital projects (Moody's, 2017).

5.4 Finishing the business of neoliberalisation?

In the early days after his election, mayor Mashaba announced his time in office would have been dedicated to advancing a "pro-poor" agenda. Among the plans put forward by the administration, two are particularly relevant to the present discussion. Firstly, the new mayor announced in 2017 that the municipal owned entities providing electricity, water and sanitation and waste collection for CoJ would be reintegrated into the City Council. The decision baffled many, being Mashaba a businessman turned politician, who has defined himself a libertarian and a "capitalist crusader" (York, 2016), running for the main centre-right and business-friendly party in the country.

> «It completely throws the existing paradigm out of the window, and I'm not talking only about the paradigm of Johannesburg, I'm talking about the paradigm of academic writing about Johannesburg. Because now you have a right-wing municipality […] coming in and saying: "we don't want to run the thing like this, we want to bring them in the public sector". […] Many officials of Johannesburg warned the new mayor that's what he was doing will be very difficult to achieve, will be very troublesome, because you will have labour issues, financial issues. A lot of time and energies will be taken by this. […] Even if they disagreed with his political objectives, they were giving him the advice that this will be very difficult to do, it will not bring any political result in the short- [to] medium-term, you will be busy with this for 2 to 3 years. And as we can see this is already causing him political difficulties» (Mike Muller,

Interview, 2 September 2017).

SAMWU expressed different doubts about the mayor's strategy:

> «the reintegration plan, it seems similar to an old request of the Union to the ANC administration, which was closer to us [SAMWU is a COSATU member] and ignored it. […] The original proposal of [new] the administration for Pikitiup wanted to split the company in independent regional agencies, one for each [of the eight] municipal regions. The Union opposes that plan, and its application to all the other municipal entities. The DA has changed its mind on the regionalisation of utilities, and now backs the reintegration into the Council. […] The Union is approving in principle the measure, contrary to what has been reported by the media. SAMWU is worried about the implementation. […] The administration is undecided on various matters. […] It is probably because of the coalition government. This may be pure politicking: the experience with DA coalition government in Cape Town shows that the party is letting the allies win some, for staying in power and form a single-party government in the next election. A DA administration […] may go for outsourcing or even full privatisation […]. The Union wants to monitor the reintegration process, because we don't believe it is carried out with good intentions. […] There is a second reason why the administration may want to reintegrate utilities. The company act forbids the Municipality from redistributing revenues from one entity to another. The reintegration will make it easier to take resources from a well-off Department to another, for political goals» (SAMWU Representative, Interview, 11 September 2017).

The end to corporatisation of the municipal entities, the landmark transformation brought about in Johannesburg by the *iGoli 2002* plan, can thus seen as a contradictory and ambiguous paradigm shift. It seemingly brings together the two extremes of the political spectrum —the "radical" leftist EFF and the libertarian Mashaba— in a shared policy strategy, although it is unclear if the proposal serves the contingent interest of keeping the alliance afloat or an underlying strategy for further unbundling municipal services (as the plan advanced for Pikitup may suggest). Furthermore, it allowed to bring forward the unreconciled fractures between the municipal workers' union and the ANC-SACP city administrators, which represents a local expression of the dealignment of political loyalties that the season of reforms has caused.

In January 2017, the City Council voted in favour of reabsorbing the municipal owned entities within 18 months (Fourie, 2017). JW was to be reintegrated starting

January the first 2019, and for this reason the management vacancies have been left unfilled. However, JW 2017/18 *Annual Report* reveals that «[n]ow that the CoJ has delayed its process to reintegrate, the filling of the vacant positions is underway» (JW, 2018, p. 10). The administration seems thus to be reconsidering, at least in the short-term, its commitment to throw «the existing paradigm out of the window».

The second major decision regarding water delivery taken by Mashaba has been the discontinuation of FWB, starting July 2017. Here, the administration seems engaged in tackling the other paradigm emerged during the past decades: the universal free access to basic services.

FBW will to be restricted to the sole registered beneficiaries of city's indigent policy. The last of a series of policy programme targeting the poor, the "Siyasizana: Expanded Social Package" (ESP), approved in 2008, relies upon the identification of the poverty level of individuals for establishing an indigent register, which determines the low-income households eligible for receiving FBW after the installation of a prepaid meter (JW, 2017).

The data on registered individuals are scattered at best. However, according to the city's latest Integrated Development Plan, «[s]ince inception, 330,000 people have registered in the ESP and in the last financial year over 130,000 individuals were beneficiaries» (CoJ, 2017c, p. 105). JW is presenting even more conservative numbers: 31,677 registered indigents receive between 10 to 15 kl free water per month (JW, 2016b). In the light of the estimated 25% of CoJ's poor urban population (1.2 million) made by CoJ Social Development Department (CoJ SDD, 2016), the yield of ESP appears meagre. This seems to support the view held by scholars and activists that ESP is too demanding, in terms of registration process, to reach the bulk of legitimate beneficiaries.

If the under-registration trend continues, the new administration will face a lack of legitimation over its policy choice, while confronting in the medium-term a substantive increase in debt overdue by households previously served by FBW. This will easily exceed the R360 million (CoJ, 2017a) savings projected for 2017/18.

«Great victory for the ultra-left! They managed to take away a useful instrument and then are

> making people subject to a means-test which will almost certainly exclude the people who need it the most, because we know that this is how bureaucracy works. […] I think you noted [that] a lot of the debt of Johannesburg is unpaid service bills. You would almost certainly see an increase in bills because the indigent system will not be rolled-out to everyone who needs it, because this kind of system..[its] job is to exclude. So, you can assume then people that should qualify will not be qualified […]. But if the city does not enforce the payments, which is quite likely, […] one way you deal with that it's just allowing it [the delivery system] to collapse, and it may happen in some places» (Mike Muller, Interview, 2 September 2017).

The indigent register has come under criticism for the complexity of the mean test process, the continuous surveillance imposed upon the enrolled individuals—which are compelled to re-register every six months for maintaining their entitlement—and the perpetration of a workfare logic as an "exit strategy" from the programme (Naidoo, 2012; Ruiters, 2016).

The first exit-strategy facilitating indigents' access to the labour market, the "Job Pathways Programme", was launched in 2008 with the aim of providing skills to registered unemployed through training in the municipal corporations (CoJ, 2008). The policy was later partially replaced by the campaign for developmental service delivery "Jozi@Work". Rolled out in 2014, the project linked the municipal service providers to the creation of job opportunities via the partial outsourcing of their operations to micro-enterprises and co-operatives, whose members were recruited in deprived neighbourhoods. Sectoral contractors, the Capability Support Agents, were awarded a share of the total projects and appointed to supervise the eligible local enterprises, which operated as subcontractors (CoJ, 2014). The strategy sought to integrate the national plan for employment creation and poverty alleviation "Expanded Public Works Programme" (EPWP). The wage of workers hired by the micro-enterprises and co-operatives had to be in line with the EPWP remuneration, i.e. between R85 and R150 per day of work (SACN, 2014). As in the case of EPWP, the new employment policy delivered temporary and discontinuous jobs. JW has adopted the developmental service delivery model for several capital projects (e.g. pipe replacement, retrofitting and leaks repairing). In 2015/16, 882 short-term jobs were created through Jozi@Work, and an additional 1542 via EPWP. By contrast, the company created 107 formal staff jobs between 2010 and 2016 (JW, 2016a).

SAMWU has criticised the programme for the precarious and underpaid job opportunities it offered:

> «The workers of Jozi@Work are receiving less than the minimum wage in very precarious working conditions, but the work they do is necessary and continuous. [...] The municipality is recycling workers. A worker does the job for a short period, and then another [worker], and then another. But it is the same task. In this way, multiple jobs are reported. [...] The resources spent for Jozi@work should be used for hiring more formal workers. [...] The EPWP programme is not working better. The two are similar, starting from the low wages. [...] The Union has a name for it: exploitation of a special kind» (SAMWU Officer, Interview, 11 September 2017).

The new municipal administration decided to reform Jozi@Work, alleging that the work packages have been previously assigned through political patronage. The programme will be rebranded and the role of the Capability Support Agents revised. However, the administration committed to the underlying tokenistic logic of temporary and low-paid job creation. Moreover, the new policy will have closer ties to the indigent register, reinforcing the workfare features of the ESP (Mashaba, 2017). The technical and tokenistic regime of administering the "poor" seems to be the guiding principle of the city's measures for basic service provision to low-income households, rather than the socio-economic inclusion advocated by social movements and struggling communities.

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6 Conclusive remarks

The research has argued for the possibility of devising a common theoretical framework for critical studies addressing the water sector.

The opportunity for an explorative research of this kind emerged from the recognition of the field of enquiry was fragmented and partially secluded along disciplines' border. While comprehensive positive paradigms for the study for the study of water management do exist (e.g. Integrated Water Resources Management), critical studies on market-oriented reforms in the water sector are applying a loose common intellectual grid for guiding the analysis: the theoretical toolbox deriving from the studies on neoliberalism.

It can be argued that the theoretical fragmentation of the research field is partially a natural consequence of the diverse disciplines, possessing intellectual tradition and methodologies, investigating water provision from a critical perspective. However, and more fundamentally, the conceptual fuzziness of neoliberalism is exercising a great deal of influence on the unevenness of researches. As by the notion of neoliberal variegation, a high degree of geo-institutional differentiation and uneven development of neoliberal reforms is to be expected. While this characteristic adaptability of neoliberal policymaking to site-specific conditions —and its receptiveness to localised solicitations— tends to produce path-depend outcomes, I have argued that it is possible to identify underlying processual dimensions which streamline neoliberal transformations.

In other words, while it may be theoretically erroneous and unpractical to compare the results of neoliberalism across its variegation, this study supports the view that it is possible to thematise the processes of neoliberalisation through a common analytical framework.

Unpacking the notion of neoliberalism thus becomes a fundamental precondition for further operationalising it. Here, I conducted a historical-theoretical reconstruction of the trajectory from the post-war mode of regulation to the emergence of a neoliberal constellation around the 1980s.

The discussion bears the result of clarifying that neoliberalism produced normative and cognitive shifts in the mode of regulation of capitalism, which were conducive of relative changes in the accumulation regime —mediated by and responsive to financial innovation— and in the ensuing distribution of surplus between capital and labour.

Neoliberalism as a hegemonic project entails reinstating a regressive distribution of income and wealth, which is obtained by the reconfiguration of distributive mechanisms set in place as correctives to the economic and geo-political crises of the 1930s and 1940s.

This reconfiguration is not the result of coercion alone, but it is justified by the use of persuasion about its inevitability. Neoliberal reforms were accompanied by a mix of repression, incentivisation and inducement. This view helps making sense of the saturation of policy discourses brought about by neoliberal ideational power, which superseded the narrow boundaries of specific policy fields and constituted an epistemic horizon of social self-reflectiveness.

The seemingly ubiquity of neoliberal policy discourses, however, risks to blur the distinctions that make the concept use for actual analysis. On this basis, the notion may end up into a "rascal" concept and be subsequently abandoned —as it has happened to the concept of globalisation when it became an all-encompassing explanans. I argued against the necessity to reject altogether the notion on the basis of its vagueness, and for attempting to (re)establish its positive contents.

This specification effort favours the processual aspect of neoliberalism —neoliberalisation— over the static description of its policy implications. The choice seems supported by the capability demonstrated by neoliberal strategies to emend themselves, tempering or hardening the effects of reforms. The concepts of 1. rollback and roll-out and 2. exceptional and normalised neoliberalisation are especially useful for thematising this self-reforming capacity. The existence of a "circulatory system" through which neoliberal policy templates move across scales and borders, are validated through the self-referential scrutiny and adapt to site-specific conditions constitutes another crucial element of self-reformation.

The scholarly contributions on this conceptualisation have been guided by the observation of the development of "actually existing neoliberalism". The retrenchment of welfare state during Thatcher's and Reagan's administrations was subsequently emended in the New Labour and New Democrats decade by the so-called Social Investment approach; the businesslike reforms of public administration advocated by the New Public Management were critically reconsidered by scholars and practitioners, so that a post-NPM consensus hinging upon participatory governance emerged; the package of supply-side developmental reforms peddled by international organisations —the so-called Washington consensus— was revised in a post-Washington consensus; the list can go on. If taken at face value, following some lukewarm critiques of market-oriented reforms, these changes marked the end of neoliberalism by the late 1990s.

On the contrary, radical critics developed the notion normalised neoliberalisation for describing the transposition of neoliberal policy aims from an exceptional status, connected to their disruptive emergence against the previous policy consensus, to a state of normal science in policymaking. The process matches the shift from rollback neoliberalisation, aimed to quantitatively reduce the scope and reach of public institutions and regulations —substituted by private initiative and market transactions, to a roll-out phase of neoliberalisation aiming at qualitatively altering public institutions and regulations so that they become conducive of private initiative and favour market transactions.

Focusing on neoliberalisation helps avoiding simplistic identification of neoliberal reforms with parties' platforms, and more importantly allows critical studies to focus on the dis-continuities between old and new templates and catch-all terms saturating the policy discourse.

The application of this heuristic device is not devoid of risks. The necessity to reduce conceptual ambiguity and specify the analytical boundaries of what constitute neoliberalisation, in particular, remain unchanged.

The tentative strategy proposed by the present work is to unpack neoliberalisation by selecting three interconnected analytical dimensions which can help operationalising the concept.

These three dimensions are the topics of interrelated, but often not explicitly recognised as such, literatures. The attempt was made to find the elements of these debates overlapping the notion of neoliberalisation. These dimensions, and connected literatures, are 1. depoliticisation (deriving from institutionalist and politico-theoretical debates), 2. market expansion (deriving from critical political economy and ecology) and 3. financialisation (deriving from various strands of heterodox economics).

The dimension of depoliticisation helps thematising the dislocation of responsibilities away from institutional entities subjected to democratic mandate through institutional, social and discursive channels. Legal and organisational, on one side, and normative and cognitive shifts, on the other, facilitate the reassignment of competencies from the public to the private sphere, allowing for a greater involvement of resourceful private actors in decision-making.

The moniker "market expansion" stands for tendency to remove the distinction between market and non-market modes of societal organisation. The dimension is two-fold. On the one hand, it encompasses the extension of neoclassical microeconomics to social sciences which were not founded upon this theoretical paradigm or to aspects of the social edifice which were deemed to bear exceptions unreducible to it —e.g. the procurement of public goods. On the other hand, it entails the extension of the profit motive to activities previously carried out on the basis of other logic of action, or to sectors that were not included in the circuit of capital accumulation —because of e.g. legal or technical barriers.

Finally, financialisation refers to the qualitative transformation of the relationships of production and reproduction into financial relationships, which accompanied the quantitative inflation of financial markets and the proliferations of investment assets.

The application of this analytical framework to water provision conducted to identify a similar three-fold interpretative construct.

The depoliticisation of water provision is translated into 1. organisational reforms that unbundle providers and/or regulatory authorities from public administration and place them at an arm's length from political control, 2. the redefinition of the operational objectives of water provision in terms of business duties and customers rights and 3. the centrality of financial and physical constraints for the policy discourses.

In the context of water sector, the dimension of market expansion hinged upon 1. the theory of efficient (marginal) pricing, 2. the introduction of return on capital as a fundamental aim of cost recovery and 3. the introduction of competitive dynamics in the (wholesale or retail) sector.

The dimension of financialisation is represented by 1. the constitution of water infrastructural projects and water provision into investment assets, 2. the importance of shareholder and bondholder value on providers' operational decisions and 3. the adoption of technical and financial devices for stabilising revenue streams and displacing bad debt risks.

The neoliberalisation of water provision reframes providers —private or public— in terms of resource-constrained actors, whose decisions on price and investment levels are guided by the search for efficiency and cost-effectiveness. The social character of water provision —if any— is confined to the treatment of the residual household in needs, which however may not overlap with the entire group of customers in arrears.

Conversely, neoliberalisation is accompanied by a redefinition of service beneficiaries. From citizens equally endowed with social rights (i.e. universal access to one of the most basic goods) they became customers displaying an unequal willingness to pay for water services. In line this, individual households are incentivised to efficiently allocate their disposable income for avoiding the ever-present risk of defaulting on their bills.

The case study of Johannesburg Water (JW) helped eliciting the complexity of actual implementation of neoliberal reforms and the possibility of their successful contestation.

The intense communities' protest, sparkled by the combination of strict cost recovery pricing and increased rate of disconnections with the introduction of prepaid meters, manifests the limits of technical (depoliticised) management of water provision. The successfulness of protests seems to indicate that it is possible, through a great effort of organisation, to politicise claims for equitable water provision.

The application of the analytical framework allowed to identify areas of overlapping between the management agreement period and its aftermath.

There are evidences that the sustained growth in tariff, justified in terms of cost recovery, hampered the ability of low-income households to afford water services. JW has had a high level of bad debt coupled with fluctuating success in revenue collection. Rather than triggering a price decrease or an overall revision of tariff structure, the trend brought the management of JW to intensify capital expenditures in the revenue enhancement strategy laid down during the contract with Suez. This came at the detriment of infrastructure replacement, which deteriorated at a fast pace during the period. It is fair to postulate that the continuation of the revenue enhancement strategy is explained by pressure for improving the revenue stream and thus keeping the municipality's creditworthiness in check, on top of institutional inertia and sunk costs.

The "ambidextrous" social policy, the limited but still universal provision of water, is being substituted in Johannesburg by a means-tested access to social services. While retaining a certain degree of welfare provision, the new regime seems to be guided more by technical and tokenistic principles for administering the "poor" than by the concern for socio-economic inclusion advocated by social movements and struggling communities.

The application of the theoretical framework to the case study obtained mixed results. While it proved heuristically useful for obtaining a more detailed picture of the transformative processes of the urban water provision, the geo-institutional differentiation among provision systems calls for more fire-tuning of the interpretative framework.

Aiming at a specific research target, the system of provision of water and sanitation in urban context, deeply shaped the direction of the enquiry into the analytical dimensions of neoliberalisation. For example, I made the deliberate choice of focusing on the impact of neoliberalisation on water providers and final users, under the assumption that sectoral neoliberal reforms are unbundling water and sanitation provision from the duties of welfare state, and thus from the set of socio-economic rights of citizenship. This translated into a major emphasis posed on institutional and organisational transformations of provision, which downplayed the importance of other market mechanisms connected to neoliberal reforms —e.g. water markets.

These is a strong caveat to the applicability of the analytical framework —if not properly modified— to the whole sector of water management.

In conclusion, the main results to which the present work arrived can be summarised in:

1. the construction of a interpretative framework operationalising the notion of neoliberal.
2. the consolidation of a unified research field for critical research in the water sector.
3. The discussion, through the case study analysis, of what constitutes a discontinuity in the market-oriented reforms of water provision.

The results contribute to the debate on three interrelated themes: 1. the depoliticising effect of the organisational reforms of water provision, by showing that both the operational logic of the providers and the relationship to beneficiaries, *qua* bearers of social rights, undergo significant changes; 2. the redistributive effect of measures designed to ensure the financial viability of water providers, by showing that they bear consequences on the affordability of water supply for the less advantaged classes of citizens; 3. the implications of access to private capital market, and in particular of debt financing, on water providers, by showing that it modifies the strategic planning of providers and their ability to pass benefits to users.

On a broader level, the research contributes to the debate about the heuristic utility of the concept of neoliberalisation for gauging the dis-continuities in current capitalist developments.

On a final note, researching the transformations of water utilities after an attempted neoliberalisation is of foremost importance for understanding the limits of neoliberalism and formulating alternatives to its hegemonic power.

The social mobilisations against neoliberalisation is not confined to the economic impact of the service reconfiguration. The opposition, by the very same nature of the good, is grounded on the historic and socio-cultural relationship to both water and one's own body. The rejection of the status of water as a pure commodity resonates with ecological concerns, political identities and spiritual practices which are hardly otherwise overlapping.

The struggles over the delivery of basic services such as water and sanitation might constitute one central point of cohesion for a broad movement towards social justice, around which political alliances can be formed. The coordination between anti-privatisation protestors, local communities and municipal workers' unions in South Africa during the early stages of the anti-privatisation struggle is an example of this kind of alliances. The deep reach of opposition to neoliberal provision of basic services seems to have the potential to turn local and specific struggles into generalised ones.