The financialization of water services and the financial securitization of water: reflections, fears, dreams

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WUN Project on the Globalization of Water Services

27 June 2014

Hyman Minsky (oral tradition, Levy Institute, circa 1994): "Anything that can be securitized, will be securitized."

Preface

Reflections

Parsing "The financialization of water services and the financial securitization of water":

- Financial globalization
- Financialization
- Financial services vs. finance
- Financial ex/inclusion

Mapped onto:

- Water globalization
- Financialization of water
- Water services vs. water
- Water ex/inclusion

Reflections

1. Financial globalization
   - A product of the neoliberal era, 1980-present
   - Growth of cross-border banking, cross-border banks; rise of the global factory
   - Increasingly frequent financial crises originating in cross-border banking or bank relationships
     - Latin American debt crisis 1982
     - Mexican "Tequila" crisis, 1994-95
     - East Asian financial crisis, 1997-98
     - Russia, Turkey, Brazil, Argentina currency crises, 1998-99
     - Subprime crisis, 2007-12
   - Debate about causes (Minsky - breakdown of govt control; Reinhart/Rogoff - too much government interference and/or debt creation)

Reflections

2. Financialization – Gerald Epstein, "Introduction," *Financialization and the World Economy* (2006): "Here we define financialization quite widely: for us, financialization means the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international economies." (p. 3)

➔ The insertion of a financial intermediation link in relationships that previously lacked them

➔ The insertion of financial accumulation motives into economic (or social) relationships that previously lacked them

EG: Speculative motives for asset acquisition vs. fee-generating motives for asset origination, sale, re-sale, etc.

Reflections

2a. Securitization – the bundling and reselling of financial obligations to new claimants

➔ The insertion of a new contractual link into relationships – a claim on cash-flows - that previously had only one

➔ The insertion of financial accumulation motives (interest payment, prospective capital gains) into economic (or social) relationships that previously lacked them

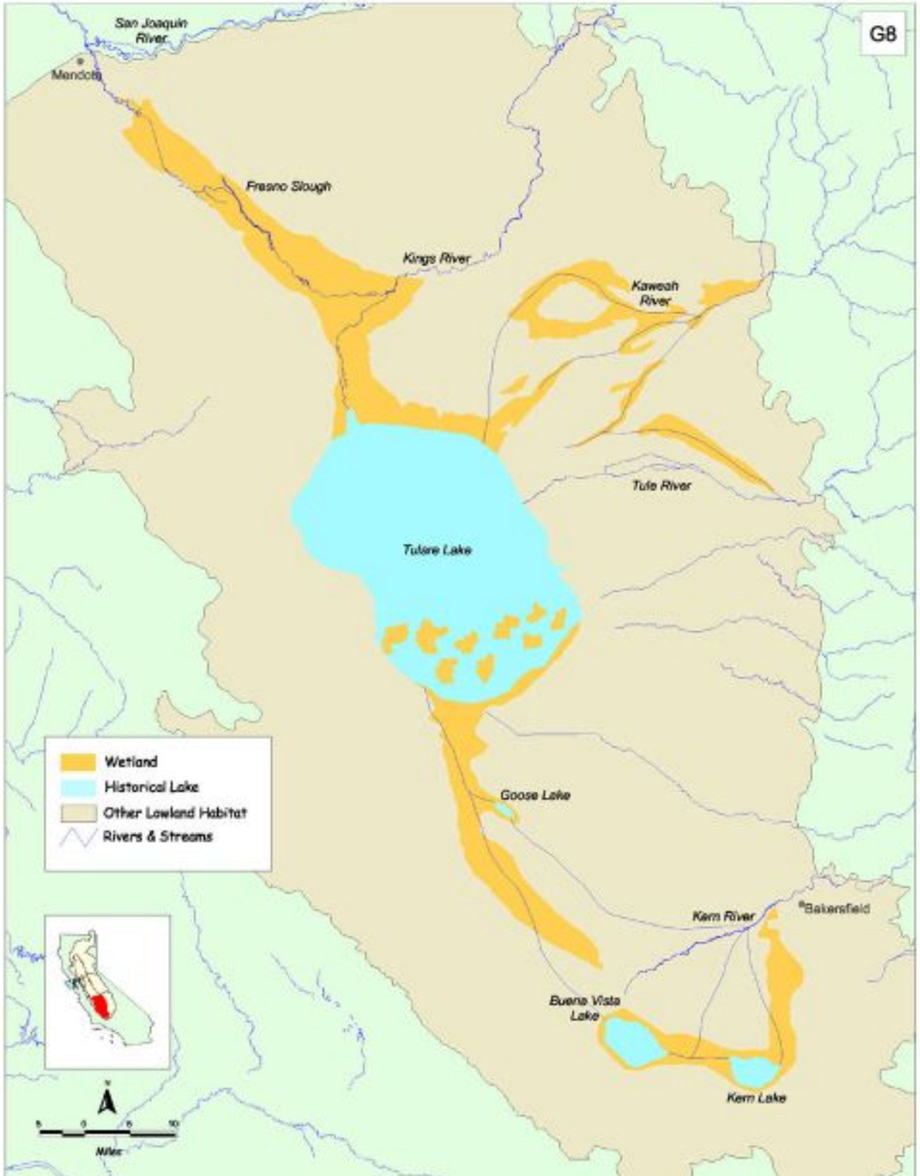
EG: "Plain vanilla" vs privatized securitization in housing finance, 1980s-2000s

Potential for expanding financial leverage, zero-sum betting, per subprime / SIV markets

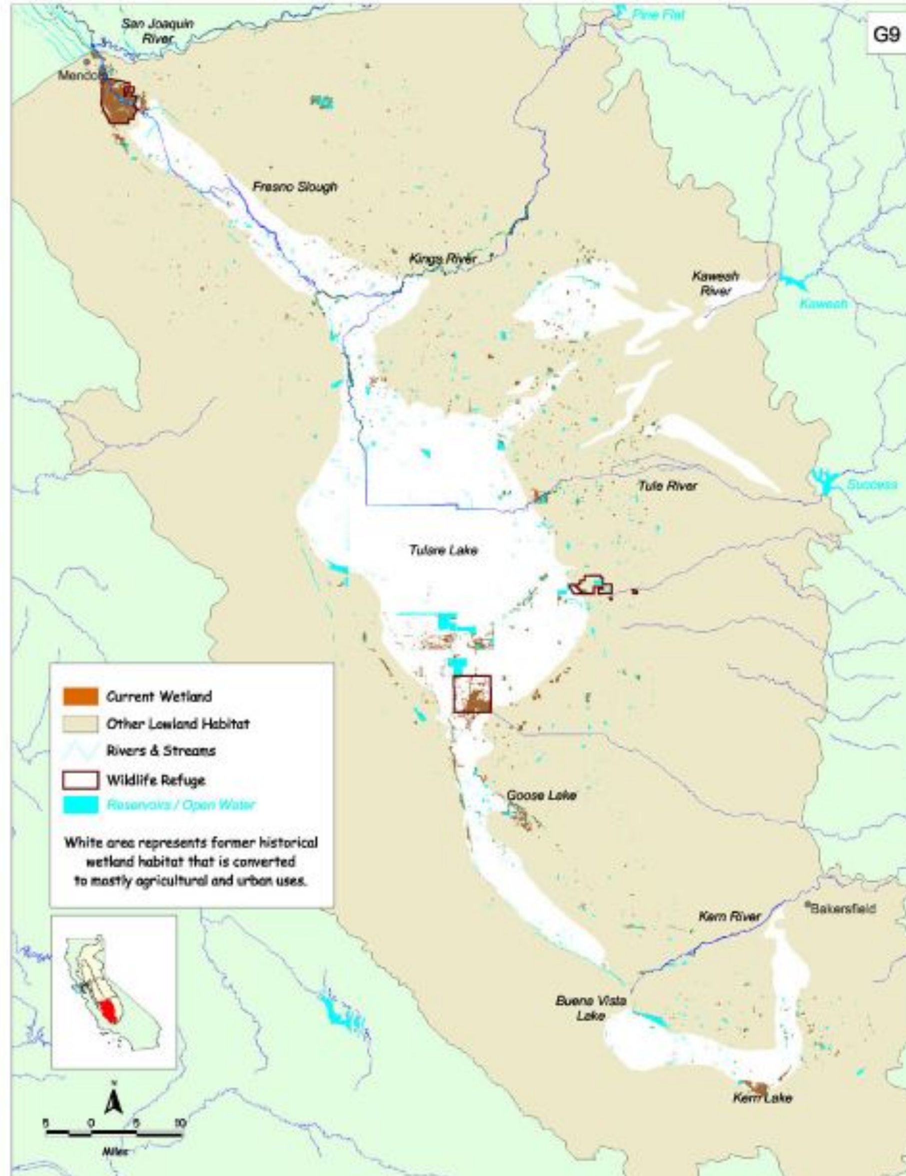
- Unsolvable moral-hazard problems of credit-rating agencies; unsolvable myopia problems of creating indices as "predictors" and bubble-avoidance mechanisms

Reflections

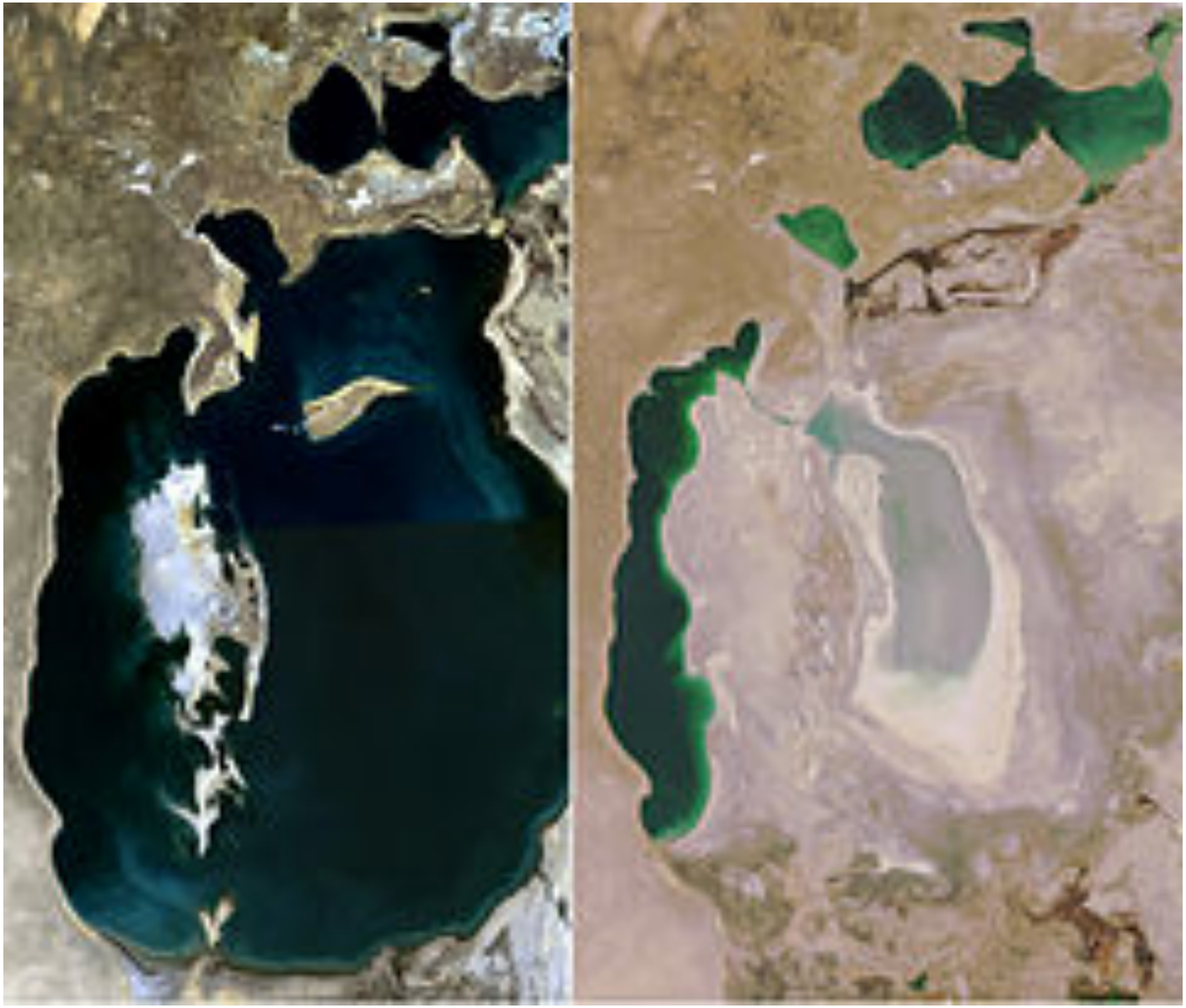
3. Financial services vs. finance
   - A flow vs a stock perspective
   - Market for marginal supply of water vs. market for water reserves
   - Pipelines and infrastructure vs. reservoirs vs. land
   - Analysis of ownership/control/regulation of a water system (eg, Jay Lund et al, UC Davis); or analysis of patterns of land acquisition for multiple purposes (agricultural production + the capture of waterfall + capture of sub-surface water reservoirs)
   - EG, San Joaquin Valley: Tulare Lake, 4xLake Tahoe, near Corcoran, CA – JG Boswell, the "King of California"
   - EG, the Aral Sea of Kazakhstan/Uzbekistan



Tulare Lake Basin Historical Wetland Ecosystem



Tulare Lake Basin Current Wetland Ecosystem



Reflections

4a. Financial in/exclusion 1: "**Financial inclusion** or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to **financial exclusion** where those services are not available or affordable." (Wiki)

➔So financial exclusion =

lack of access to financial services

Reflections

4b. "Social exclusion in the financial realm—that is, 'financial exclusion'—refers to the failure of the formal banking system to offer a full range of depository and credit services, at competitive prices, to all households and/or businesses. The systematic exclusion of households and/or businesses from 'financial citizenship'—on the basis of race or ethnicity, geographic area, gender and so on—compromises their ability to participate fully in the economy and to accumulate wealth." (Dymski 2005)

➔ So financial exclusion =

being subject to exploitation and denial of access to full economic participation & wealth accumulation

Reflections

1. Water globalization
   - A product of the neoliberal era, 1980-present (?)
   - Growth of cross-border water flows, cross-border water companies
   - Increasingly frequent water crises originating in cross-border water dependencies or water companies (?)
   - Debate about causes: loss of public control and rise of a greedy private sector? too much government interference and inflexible regulation and rate-setting? Etc.

Reflections

2. Financialization of water? – Gerald Epstein, adapted: "the financialization [of water] means the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international [water flows and services]." (p. 3)

➔ The insertion of a financial intermediation link in relationships that previously lacked them

➔ The insertion of financial accumulation motives into economic (or social) relationships that previously lacked them

EG: Speculative motives for asset acquisition vs. fee-generating motives for asset origination, sale, re-sale, etc.

EG: Out-of-control leveraging, speculation; Keynesian uncertainty, "ride the bubble" speculation (Brunnemeier/ Pederson), etc.

Reflections

3. Water in/exclusion 1: “the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to **water exclusion** where those services are not available or affordable.” (Wiki)

   ➔ So water exclusion = lack of access to water services

“[Water] exclusion in the financial realm—that is, ‘financial exclusion’—refers to the failure of the [water supply] system to offer a full range of [water] services, at competitive prices, to all households and/or businesses. The systematic exclusion of households and/or businesses from ‘water citizenship’—on the basis of race or ethnicity, geographic area, gender and so on—compromises their ability to participate fully in the economy and to accumulate wealth.” (Dymski 2005)

➔ So water exclusion = subject to exploitation and denial of access to full economic participation & wealth accumulation

Fears

1. Water globalization
   - Privatization of water supply
   - “Securitization” of water supply
   - Marketization of water demand
   - Linked to:
     - Growth of cross-border water flows, cross-border water companies
     - Increasingly frequent water crises originating in cross-border water dependencies or water companies
   - Is water like housing, an asset that can expand in volume, and which not everyone can afford to buy?
   - Is water like natural resources in Latin America, which can be (sometimes) increased through extraction/production?

Fears

2. Financialization of water:

   The insertion of financial accumulation motives into economic (or social) relationships that previously lacked them

   EG: Speculative motives for asset acquisition vs. fee-generating motives for asset origination, sale, re-sale, etc.

   - Derivatives markets in the instrument permit fee-generation or speculation that is rooted in market exchanges of that instrument (water or water rights), without requiring that they physically exchange hands.
   - Interest rate swaps can prevent exposure to monetary-policy risk ('hedging' against different kinds of financial price movement(s))

Fears

3. Water services vs. water land "wars"

What goods/services and resources are at play, and are they expandable or non-renewable?

- Water infrastructure: Pipelines, pipes
- Water-capturing land: Reservoirs
- Water-bearing land: Subsurface acquifers, reserves
- Water-bearing land: Ownership of land = capture of rainfall?

Are we dealing with an asset whose availability will expand with market incentivization, or an asset for which privatization will generate rent-seeking and speculative motives?

Ownership and control as a "privately owned asset"; or under national or regional governmental control

Fit into the logic of the global financial frame? Is ultimate control with nation-state decision-making or is there a "higher power"?

Fears

4. Water in/exclusion 1: Is ex/inclusion to the right to buy water the same as the ability to buy water?

Then … water exclusion = lack of access to water services or

water exclusion = subject to exploitation and denial of access to full economic participation & wealth accumulation

“Conflict of laws” and bankers’ collusion

Lee Buchheit (1988):

- “The effect of the sovereign debt crisis on inter-creditor relationships has been dramatic and rapid. The international banking community has learned to act as a more or less unitary creditor group. The international banking community has also devised methods to suppress anxieties regarding preferential treatment of certain individual banks, encourage unanimous participation in exercises that are by their nature unanimously unpopular, and discipline those members of the community who may show tendencies toward unacceptably unilateral behavior.”
- What is crucial is that “credit agreements should reflect the banks' entitlement to regard themselves as lenders to the country as a whole, not just separate borrowers within the country”

Lee Buchheit, fairy godmother to finance ministers in distress

Go-to expert for debt-ridden nations on why Spain is the euro's biggest problem, and why he prefers working for debtors

Josephine Moulds
The Guardian, Tuesday 12 March 2013 13.28 EDT

Lee Buchheit: 'The market moves so fast. Hedge funds have the attention span of a Peruvian chinchilla' Photograph: Karen Robinson

Global finance: a higher power

- By acting as a single interest in negotiations with individual borrowers, globalized financial firms avoid joint action by borrowers, and renegotiations carrying forward into the future. After the Brady bond solution, the format was set, for subsequent private-sector led securitizations of subprime loans, municipal debt issues, credit-card debt, Eurozone nations' borrowing, and so on. The "certainty" deemed so necessary in the height of the Latin American crisis was achieved.
- The principles laid down – bankers' unity in constituting a distinct interest; the opacity of banks' deals to preserve the integrity of the financial relationships they have constructed; the priority given to private negotiations in globalized financial markets, over those of the citizenry in borrower nations – subjects nation-states to global financial contracts as a higher power.

Hopes: Data (1)

A map of data requirements; also a map of complex principal-agent motives

Nature of ownership	Nature of activity: Production	Extraction	Exchange, resale
National ownership and distribution	*National water co's (includes dam construction)*		
Subnational ownership, extraction, distribution	*Regional, municipal co's (includes land reservation)*		
Public ownership, private extraction, distribution			
Private ownership, extraction, distribution			REITs, SIVs based on real-estate assets (housing, and so on)
(Above) plus exchange, resale			
(Above) plus speculative markets to 'find prices'			

Hopes: Understanding

- What will be the impact of privatization per se?
- What financing needs would come into being in meeting the water needs of the future?
- Can the motives of providers of finance be "controlled" or do they need to be? *['societal need' vs 'market motives', or vs. 'public-authority rent-seeking', etc.]*
- What about backward entry into water production - acquire land now – "bank" it – and capitalize on the gains potential of the asset later.
  - EG, vacant million-pound homes in Mayfair area of London
- Is there a danger of destabilizing dynamics per the subprime episode being repeated? (bubbles, fee-taking, shadow banking, trading of synthetics, leverage by TBTF banks, and so on…)

Hopes: Data (2)

A map of data requirements about the state of financial-market involvement in water and land asset acquisition and holding, and in water-service provision

What markets exist, over-the-counter if not exchange-traded, and who owns what?		Stock of commitments regarding ownship rights and/or promises to pay:		
		Loan origination	Security distribution	Secondary-market exchanges
Nature of "goods" in play	Water provision contracts			
	Sanitation provision contracts			
	Water infrastructure projects			
	Land, water-resource acquisition and exchange			
	Insurance contracts on above			
	Financial derivative products'			

And we get there … (no hunger, no shortage, no poverty … how?

Hopes: Global provision for a global population

What is the what?

- "Rational" use of water to reduce child death, to permit food production, to preserve the potential for future social and economic reproduction…
- "Socially efficient" financial markets that offset risks and permit the financing of costly assets, without bringing in more instability in asset markets, opening the way to new zero-sum speculation games, and thus worsening the global distribution of income and wealth in ways that further delegitimize public activities and even mass-market activities.