



Financialization of Urban Governance: Thinking Globally about Local Environments

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Perspectives from global studies—transcending the state-centric world order and accounting for globalization in its varied forms—are necessary to fully explain phenomena that, at first glance, are interpreted through more localized frameworks. In recent research, I study how global financial capital prefigures and influences the priorities and policies of regional water governance districts. By studying environmental problems through the lens of public policy and global finance, we can produce generalizable insights and actionable policy analysis.

On the macro end of the spectrum, global capitalism is surely responsible for a great deal of the world's environmental degradation. However, developing policies through macro-level studies (i.e. analysis of the world-system, large-N cross-national analysis, critiques of global governance) often requires a leap from the abstract to the concrete that is a hard sell for some audiences. On the micro-level end of the spectrum, pointing to a specific policy, individual, or historical moment as the key driver of a problem may be compelling to specialists, but overly embedded accounts of socio-environmental problems can neglect broad systemic issues that reproduce ecological degradation, overconsumption, and environmental racism.

Social studies of environmental problems risk being over-embedded in local contexts or overly abstract in macro-level accounts. For instance, in California the ongoing decline of habitats at the Salton Sea and the Bay Delta are cases generally viewed as regional problems of distribution and politics, meanwhile overlooking the global political economy and associated power dynamics that create and perpetuate environmental degradation and a multitude of other social problems.

Focusing on financial structures is an effective way to build conceptual scaffolding that links local empirical settings to global theories of power and political economy. Research and theoretical developments in the subfield of economic sociology point

to the important lesson that money is not the neutral arbiter of value that classical economics would have us believe. Rather, money has social and political origins that matter for substantive outcomes related to where and by whom it is spent.[1] Accordingly, it is imperative to interrogate *how* we pay for public infrastructure and environmental governance systems.

In California, infrastructure and operations are largely funded through water districts and city governments that regularly issue municipal bonds. The multidisciplinary fields of urban studies and urban political economy contain many lessons regarding how the financing of urban infrastructure has evolved and what it means for social outcomes.

The concept of financialization describes the increasing influence of financial logics and markets in previously non-financial areas of activity.[2] With respect to urban governance it refers to the fact that public infrastructure and revenues have been made into a class of assets by global capital markets through municipal bonds.[3] This began with the neoliberal era in the later decades of the 20th century. Due to the proliferation of neoliberal policies, cities saw declining economic support from the federal government, and, as a result, local governments turned to capital markets for money.[4] For subnational agencies under these conditions, access to capital requires pleasing financial gatekeepers. Central to this dynamic are the three major credit rating agencies,[5] as the evaluations by these firms effectively drives investor demand for an agency's debt.

Additionally, in a changing climate with increasingly precarious futures on the horizon, governance organizations must meet the challenges of adaptation, conserving non-renewable resources and mitigating our impact on the environment. Therefore, we must understand how credit rating agencies, as the gatekeepers to global capital, impact the pocketbooks of citizens, undermine democratic institutions, and influence our collective impact on the environment.[6]

I examined credit rating reports published in the wake of downgrading the debt of water districts in California. Among my findings is a telling example: In 2011, following three years of drought conditions, the key provider of imported water for Southern California incurred a downgrade due to volatility in the demand for water. Thus, during a time in which citizens are concerned about shortages and are asked to reduce consumption, the credit rating agency nevertheless penalized the public

utility for changes in demand, a clear signal that water was being treated as a commodity rather than as a public good.

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Interviews with water managers and observations of committee meetings yield numerus data points suggesting that credit ratings are a top priority for water districts. For instance, the General Manager of a water district in Southern California asserted, “When I came in, I said, we want to achieve the highest credit rating possible, a AAA credit rating. So, I talked to our financial advisors.” Here the GM makes clear that credit ratings are a primary concern and that financial knowledge is prioritized. In an interview, an elected board member of the water district pointed out that water districts have better credit ratings than city governments because water districts “have something to sell.” This exchange underscores that within the institutions of public governance, natural resources are commodified and leveraged for the incentives that are offered by the dominant financial structures.

Analysis of water governance in California, focused as it is on global capital circuits, underscores multiple ways in which public water providers face financial incentives/penalties at odds with environmentally sustainable policies and the execution of democratic representation. For instance, water providers are incentivized to
[1] increase water sales,
[2] centralize control among limited organizations,
[3] maintain consistent demand regardless of climatological conditions,
[4] pursue surplus and growth to strengthen financial positioning,
[5] demonstrate a willingness to raise rates in the face of public pressure,
[6] limit spending on environmental conservation projects
[7] diminish regulatory oversight seeking conservation and recycling.

Additionally, quantitative financial statistics from 1960 to present, from the aforementioned district delivering imported water, demonstrate a decline in tax revenues coinciding with an increase in revenue from water sales. This divergence begins in the early 1980’s and the dominance of water sales has been consistent since then, making up about 80% of the district’s income. Parallel to this, the use of

General Obligation Bonds (debt backed by taxes) dropped while the use of Revenue Bonds (debt backed by future revenues) increased, with Revenue Bonds overtaking GO Bonds in the 1990's. In recent years, Revenue Bonds comprise almost all of the districts' outstanding debt and GO Bonds make up a marginal amount. Taken together, this offers strong evidence that urban environmental governance is heavily financialized and, as a result, public institutions may be acting as stewards of financial capital accumulation rather than stewards of shared public resources.



Large-scale agriculture adjacent to the increasingly polluted Salton Sea in the Colorado River drainage basin of southeastern California.

There are two primary ways in which thinking globally is necessary to understand contemporary urban and environmental governance. First, financial markets are global, thus, we should consider financialization of governance as an avenue through which the rapid mobility of global financial capital erodes local autonomy. By affecting subnational governance priorities, the interests of the global and transnational capitalist class are actively advanced by financial gatekeepers—i.e. the major credit rating agencies—as they reconfigure the daily lives of people and

communities in urban spaces.[7] Moreover, this erosion of local autonomy directly shapes our collective relationship with the natural environment and our ability to pursue ecologically sustainable public policy. Since the financial reconfiguration of subnational governance occurs not against public institutions but through and with public institutions, we must think beyond binary distinctions like ‘public interest’ or ‘public subsidies’ on the one hand, versus, ‘privatization’ or ‘private investments’ on the other. Conceptually, we can benefit from dissecting how global financial circuits permeate public institutions at subnational levels and what it means for our understanding of how the environment is commodified in the contemporary global political economy.

And second, the effects of financializing governance are felt globally. In this essay, I’ve discussed research empirically focused on the Western US, but examples in other sectors and locations abound. For instance, one empirical study shows how the plans to build a desalination plant in London were heavily influenced by the demands of financialization.[8] Another pair of studies show how hedge funds and financial elites are increasingly investing in water delivery and farmland acquisition all around the world and, through global financialization, deepening ties between individuals in low-income countries and the world’s richest investors.[9] Scholars have also shown that the global food commodity chain is heavily influenced by agrifood system financialization, as well as land and rents being financialized in places like post-industrial Italy, rural land in the US, and public land in the UK.[10]

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Furthermore, municipalities serving lower socio-economic status communities experience negative financial feedback that is best characterized as the *financial pathology of institutions.* As municipalities come to be seen with disfavor by financial gatekeepers, they incur greater costs and lose access to capital. As a result, they tend towards even poorer financial performances and service provisioning, further hindering their ability to recover and address community needs, like clean and reliable water. Municipal financialization is consistent with the dynamics of the contemporary global economy, characterized by systematic “expulsions” and brutality against the marginalized and the environment.[11]

In sum, thinking globally about local environments and subnational governance has much to contribute to understanding environmental challenges, like declining riparian habitat and managing scarce resources. As we discuss large-scale reforms to address climate change, with proposals like the Green New Deal, it is essential that scholars and policymakers are mindful of how financial structures underpin governance. Sustainable policies will require financial reforms that limit the influence of global capital investors and their representatives who prioritize revenues and wealth extraction above conservation and democracy.

Notes

1. Zelizer is a formative thinker in this line of work. And more recently, Pacewicz (2016) adroitly brings the social meaning of money to bear on urban governance. See: Zelizer, Viviana A. 2017. *The Social Meaning of Money*. Princeton, New Jersey: Princeton University Press; Pacewicz, Josh. 2016. “The City as a Fiscal Derivative: Financialization, Urban Development, and the Politics of Earmarking.” *City & Community* 15(3):264–88.

2. Some influential developments on financialization include: Epstein, Gerald A., ed. 2005. *Financialization and the World Economy*. Paperback edition 2006, reprinted 2014. Cheltenham: Elgar; Foster, John Bellamy. 2007. “The Financialization of Capitalism.” *Monthly Review* 58(11):1; Krippner, G. R. 2005. “The Financialization of the American Economy.” *Socio-Economic Review* 3(2):173–208.

3. Some exemplary arguments in this regard include: Halbert, Ludovic, and Katia Attuyer. 2016. “Introduction: The Financialisation of Urban Production: Conditions, Mediations and Transformations.” *Urban Studies* 53(7):1347–61; Leyshon, Andrew, and Nigel Thrift. 2007. “The Capitalization of Almost Everything: The Future of Finance and Capitalism.” *Theory, Culture & Society* 24(7–8):97–115; O’Neill, Phillip. 2017. “Managing the Private Financing of Urban Infrastructure.” *Urban Policy and Research* 35(1):32–43; Torrance, Morag I. 2008. “Forging Glocal Governance? Urban Infrastructures as Networked Financial Products.” *International Journal of Urban and Regional Research* 32(1):1–21.

4. Two works important to understand neoliberalism and financialization in urban governance include: Hackworth, Jason R. 2007. *The Neoliberal City: Governance, Ideology, and Development in American Urbanism*. Ithaca: Cornell University Press; Sbragia, Alberta M. 1996. *Debt Wish: Entrepreneurial Cities, U.S. Federalism, and*

Economic Development. Pittsburgh, PA: University of Pittsburgh Press.

5. The firms are Standard & Poors, Moody's, and Fitch all of which have questionable records of predicting risk and contributing to financial crises.

6. See Poon's (2012) book chapter for a comprehensive history of rating agencies and Hackworth (2002) for a critical examination of credit rating agencies influence of city politics: Poon, Martha. 2012. "Rating Agencies." in *The Oxford Handbook of the Sociology of Finance*, edited by K. Knorr Cetina and A. Preda. Oxford University Press.

7. The work of William Robinson is especially insightful with regard to how transnational capital elites leverage social and political institutions for their benefit. See: Robinson, William I. 2014. *Global Capitalism and the Crisis of Humanity*. New York City: Cambridge University Press.

8. Loftus, Alex, and Hug March. 2016. "Financializing Desalination: Rethinking the Returns of Big Infrastructure: Financializing Desalination." *International Journal of Urban and Regional Research* 40(1):46–61.

9. Bayliss, Kate. 2014. "The Financialization of Water." *Review of Radical Political Economics* 46(3):292–307; Fairbairn, Madeleine. 2014. "'Like Gold with Yield': Evolving Intersections between Farmland and Finance." *The Journal of Peasant Studies* 41(5):777–95.

10. Clapp, Jennifer. 2014. "Financialization, Distance and Global Food Politics." *The Journal of Peasant Studies* 41(5):797–814; Kaika, Maria, and Luca Ruggiero. 2016. "Land Financialization as a 'Lived' Process: The Transformation of Milan's Bicocca by Pirelli." *European Urban and Regional Studies* 23(1):3–22; Gunnoe, Andrew. 2014. "The Political Economy of Institutional Landownership: Neorentier Society and the Financialization of Land." *Rural Sociology* 79(4):478–504; Christophers, Brett. 2017. "The State and Financialization of Public Land in the United Kingdom." *Antipode* 49(1):62–85.

11. Sassen, Saskia. 2014. *Expulsions: Brutality and Complexity in the Global Economy*. Cambridge, Massachusetts: The Belknap Press of Harvard University Press.

Tags

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