



CAMPAIGNING TO KEEP  
WATER AS A PUBLIC TRUST

## The ABCs of Water Privatization

The World Bank has predicted that by the year 2025, two-thirds of the world's population will run short of fresh drinking water. As supplies become scarce, water will take on unprecedented market value. *Fortune* magazine dubbed water the “oil of the 21st century,” but, unlike gasoline, its real value is incalculable. No living being can survive without water, an immutable fact of life that multinational corporations are seeking to parlay into profits.

Thus was born the water privatization movement, which, though in its infancy, arguably looms as the greatest threat to the protection of this irreplaceable public resource.

National and local governments, the World Bank, the International Monetary Fund and multinational utility companies are jumping onto the privatization bandwagon with nary a second thought. While the full story of water privatization is decades away from being told, early reports reveal that these schemes in the United States and throughout the world have gone terribly wrong — with prices increasing, quality suffering and accountability falling by the wayside.

The forces driving privatization include the mounting costs and political liabilities of providing water services, increased pressure on governments from the World Bank and IMF to reduce water subsidies and public-sector debt, and the growing power of private corporations seeking to profit from the sale of water and related services.

Privatization advocates are quick to argue — usually without any supporting evidence — that switching from publicly owned enterprises to privately owned firms will lead to greater economic efficiency, and that the positive effects will permeate through the economy by way of stabilized rates, reduced public debt and improved budgetary management.

In reality, privatization more often than not fulfills none of these promises, and instead creates problems that did not exist before. Vulnerable to corruption and operating according to a profit-driven corporate agenda fundamentally incompatible with delivering an essential human need, water companies are failing citizens in both developed and developing countries.

One need look no further than Cochabamba, Bolivia's third-largest city, where astronomical rate hikes following privatization spawned a deadly uprising in 2000 that forced the government to cancel the contract and turn over control of the water system to a public entity headed by the protest leader. In the U.S., privatization in cities such as Atlanta and Pekin, Ill. has resulted in debris-flecked water, broken fire hydrants, excessively high rates and less than adequate service.

At the heart of these failures are the irreconcilable natures of water and profit. Water's unique and public nature is not amenable to free-market solutions. Regulation is necessary to protect public health and affordability, but corporate executives and stockholders chafe under any restrictions that could remotely limit their profits, even for the public good.

In the United States, for example, the National Association of Water Companies (NAWC), which represents the private water industry, intensively lobbies Congress and the Environmental Protection Agency to, among the many items on its political wish-list, block higher water standards and give private companies access to the same low-interest financing that public agencies can obtain.

The NAWC also wants all federal regulations to be based on cost-benefit analysis, meaning that public health is compromised for the sake of higher profits. The organization believes, for example, that it is reasonable for water companies to spend more than \$10 million to rid water of a contaminant only if doing so would likely save someone's life, but not if the contaminant poses serious but non-fatal health risks.

Price hikes and water quality problems often follow on the heels of privatization. While governments may expect to lower debt and transfer the costs of infrastructure repair and maintenance via privatization, the willingness of private companies to make such investments depends on the profit stream. In fact, debt reduction, increased spending for upgrades and the companies' guaranteed profit margins will ultimately be borne by citizens through higher bills. Privatization saddles consumers with the dual responsibilities of public debt reduction and corporate profitability, usually guaranteed by governments' contracts.

Operating as a sanctioned monopoly, a private water company is able to exploit the lack of competition. Citizens have few avenues to voice dissatisfaction with broken promises. In fact, communities' interests are often trampled and disregarded once public control is surrendered. Without transparency or accountability, water corporations are breeding grounds for bribery, kickbacks and other forms of corruption, many cases of which have been documented in the U.S. and abroad.

World Bank- and IMF-backed water privatization schemes in the developing world often *reduce* access to water for the poor. When implemented in the face of poverty, privatization often deepens inequalities and exacerbates desperate and volatile situations. Access and affordability are limited to those who can pay, while the poorest water-users, losing out on the cost-benefit models, are denied water.

The World Bank and IMF call for "full cost recovery" pricing without subsidies. Translation: Citizens are forced to cover the cost of operating, maintaining and expanding water utilities. Plus, when systems are run by private companies, full cost recovery includes a "reasonable" profit margin. Even in the U.S., water is publicly subsidized in order to prevent economic hardship among the citizenry, yet the World Bank and IMF maintain that full cost recovery is a reasonable policy for the poorest countries in the world.

The water infrastructure bill introduced in the Senate in February 2002 makes federal assistance for water systems conditional on the recipient's consideration of privatization. This language jeopardizes public access to safe and affordable drinking water.

During its testimony, the U.S. Environmental Protection Agency implied that Bush administration did not support additional funding to help the country's crumbling water systems, but instead believed that privatization is a better solution.

If the United States lists water as a service that falls under the General Agreement on Trade in Services, the bill will provide multinational water giants, such as French-based Vivendi and Suez, yet another venue to challenge public ownership and operations of water systems.

With each drop of water that falls into the hands of private interests, any sustainable solution to the global water crisis moves further and further from the public's grasp. Unfettered, this trend could spell doom for many of the world's 6 billion-plus people.