As Detroit water department faces threats

Water privatization in England: 25 years on

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The following report was submitted by Jean Shaoul, a regular writer for the World Socialist Web Site, *who is an expert on the global privatization of public resources. The Detroit Department of Water and Sewerage (DWSD) has been the focus of much of the financial and legal wrangling by the innercircle of politicians, judges, lawyers, consultants and financiers around the office of the Detroit emergency manager.*

The imposed bankruptcy of Detroit is being used to provide a pretext to "monetize" and loot one of the city's most valuable resources—its water department. The lies heaped upon lies by the politicians and the media seek to disguise the rapacious character of their designs.

The history of the privatization of the water system in Britain 25 years ago under the regime of Margaret Thatcher exposes the claims that "free enterprise" can improv e the functioning of a publicly owned and operated water system.

Twenty-five years ago, the most vital resource on the planet—water—was privatised in England and Wales. It is instructive to examine the impact of privatising the water and sewerage industry in 1989, since the World Bank/International Monetary Fund, the banks, and financial consultants the world over are pressing governments and municipalities to follow suit.

The whole privatisation process was itself replete with myths if not downright lies.

Contrary to the myths perpetrated by the then Conservative government of Margaret Thatcher, the basic infrastructure enterprises such as the water industry had always been able to generate an operating surplus. It was the claims of finance capital they could not meet, which was why they were publicly owned, not just in Britain but internationally.

The government justified the privatisation with claims that the private sector would find the finance for the European Union-mandated investment programme of £30 billion that the government could not afford, and that the sale would lead to benefits for consumers and deliver cash to the government. An independent regulator would defend consumers against potentially rapacious monopolies. None of this turned out to be true.

First, to make the deal attractive to the private sector and ensure the newly created regional companies could generate a satisfactory rate of return on capital employed for the new owners, the government kept the industry's debts, gave the industry tax concessions, retained any large or problematic liabilities, transferred surplus pension funds to the private sector, and gave a cash injection towards the cost of the investment programme mandated by the European Union.

So the net result was that the government made a loss on the sale of the publicly owned assets built up by generations of taxpayers and consumers, something that was never publicly admitted.

Water bills rose dramatically after privatisation in 1989, increasing faster than both inflation and average earnings. They rose by a massive 62 percent in the first five years alone, as the water regulator allowed prices to rise to cover the cost of maintaining the crumbling Victorian infrastructure, improving water quality, and investing in river and coastal water cleanup.

Since then, prices have risen further and many of the companies have installed water meters so that consumers, instead of paying a flat rate, are billed for their actual consumption. This falls particularly harshly on families whose bills may be four times more than that of a single-person household.

A report by the Joseph Rowntree Trust in 2012 found that the increase in metering was likely to lead to affordability problems for some low-income households, creating "water poverty" in some cases—where households spend 3 percent or more of their income on water bills. It noted that water affordability is a particular problem for families in the southwest of England where bills are on average 43 percent higher than elsewhere. It said that about 4 million households are currently "water poor" and this would increase as water bills are set to rise 5 percent a year for some customers.

Another report for the Poverty and Social Exclusion group found that almost a quarter of households in England and

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Wales suffered from water poverty in 2009-10 and if water charges continued to rise faster than inflation, water poverty would more than double by 2033.

Workers also suffered, as the newly formed water companies found numerous ways of slashing their wage bill, which had already been rigorously pruned in the run-up to privatisation. They shed labour and outsourced the work to companies that paid lower wages. They abandoned national collective bargaining and struck local deals with the trade unions, which never lifted a finger to stop this or any other privatisation—all of which were and still are deeply unpopular—enabling them to cut wages, pensions and conditions.

The water companies skimped on investment and maintenance and hence repeatedly failed to achieve the performance targets set by the water regulator in return for higher prices. Twenty-five years after privatisation, leakages have fallen from 30 percent to 22 percent, despite promises in 1989 to reduce them to single figures. Seven years ago, two of the water suppliers, Thames Water and Severn Trent, were forced to commit to additional investment of £200 million to tackle their dreadful leakage rates. Britain's biggest supplier Thames Water still leads the table for water loss at a massive 646 million litres a day—enough to fill an Olympic swimming pool every five minutes. There were no major improvements in any of the other performance indicators. Indeed, most of the companies fail at least one of their performance targets.

Within a few years of privatisation, the public water supply in West Yorkshire—one of the wettest parts of the country—failed, due to negligence on its part, and was only maintained by a round-the-clock road tankering operation lasting three months. Even the government's tame regulator was forced to admit that this was due to Yorkshire Water's commitment to paying dividends to the shareholders at the expense of key investment.

While prices were allowed to rise to cover the cost of improving water quality, with the removal of some pesticides and minerals, nevertheless, on five key parameters: nitrate, iron, lead, PAH and other pesticides, performance has been poor. In March 1997, there was a serious outbreak of cryptosporidiosis in North London, during which people were poisoned.

Finally the rate of infrastructure renewals has been so slow that it would take more than a century to replace the water mains and five centuries to renew the critical sewers. But the degradation in the performance and status of the infrastructure threatens service delivery and public health while creating additional costs in the future.

The record of water privatisation internationally—whether via the sale of the infrastructure assets, public private partnerships, management contracts or design, build, finance and operate contract—has been no more successful, as a 2011 Greenwich report on trends in water privatisation shows. It notes that many private water supply contracts have had to be terminated or renegotiated.

The privatisation of the other basic infrastructure industries has been no more successful. The source of the problem is that it is impossible not just in Britain but all over the world to run such a vital and highly capital intensive industry as the water industry in a rational and economical way that serves the broader needs of society while at the same time satisfying the demands of the industry's owners and financiers. The two are simply incompatible.

Privatisation has played a key role in the rising inequality, not just in Britain but all over the world, redistributing wealth not from the rich to the poor but from the mass of the population to the elite few. As such, it has increased the social, economic and political conflicts that were to some extent at least assuaged under public ownership.

Detroit water workers who face privatisation and layoffs cannot allow this to take place. A fight-back campaign must be developed, based on the formation of rank-and-file committees, independent of and opposed to the unions. The broadest appeal must be made to other sections of the working class confronting similar attacks on their jobs, wages and conditions, beginning with the water workers in the Detroit metropolitan area.

Water and all other essential services must be taken out of the control of the bankers and brought under the democratic control of the working class, as part of the socialist reorganisation of society. This requires an internationalist and socialist perspective, aimed at the revolutionary overthrow of the capitalist system and the formation of a workers' government. The Socialist Equality Party is alone in fighting for this program. We urge all workers to attend the Workers Inquiry into the Bankruptcy of Detroit to begin a discussion on these critical issues.

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