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WATER

What is the Benefit of Privatizing Water?

BY LAKIS POLYCARPOU | SEPTEMBER 2, 2010

A recent *Wall Street Journal* article reports on what seems to be an accelerating trend: cities privatizing their water supplies. According to the article, the Indianapolis city-county council voted last month to sell its water and sewer utilities to a charitable trust; San Jose and Pittsburgh are considering selling their water systems as well, while Sacramento is now allowing Nestle, SA to bottle and sell "excess" tap water.



Privatization: Half-full or half-empty?

Worldwide, private ownership of water utilities has been growing for a number of years. According to a 2004 editorial by Gary H. Wolff in the *Journal of Water Resources Planning and Management* the number of people served by private water companies worldwide grew from 51 million in 1990 to nearly 300 million in 2002.

The reason for the most recent uptick is trend financial: in the current economic climate, municipalities across the country are strapped for cash and will, it seems, take any measure to shore up finances.

But is privatizing water good for the public?

Wolff takes a balanced view of what he calls the “Gordian Knot” of the public/private water debate, suggesting, “we do not need to decide if private or public ‘players’ are superior, in the abstract. We need to implement and enforce the ‘rules of the game’ under which private or public utilities or operators are efficient and responsive to social needs and desires.”

Wolff further points out that worldwide, the greatest water problems occur in places where the government is too weak to either provide adequate services or to regulate private companies—no doubt true.

But leaving aside the very real problems of water access, quality and accessibility that must be addressed in the developing world, what is the case for private water ownership in a place like the United States?

Privatization advocates point out that private water companies must still comply with local and federal regulations on water safety, and argue that privatizing water saves the consumer money.

However, when the non-profit water advocacy group Food and Water Watch looked at average water rates charged by utilities in California, Illinois, Wisconsin, and New York, it found that private utilities charged consumers “significantly higher water rates” than public ones did—as much as 50 percent more.

The group listed several reasons that private companies charge more for water. First, corporate utilities are required to provide returns to shareholders, not the community. While regulations in theory limit profit margins to approximately 10 percent, companies can get around this requirement by leveraging their assets. “In other words, instead of using money they had borrowed for needed improvements to water operations and infrastructure, the companies invest in side businesses or other activities that diversify their operations to increase profits.”



Chicago Water Tower. Source: Melissa Gasser on Wikimedia

In addition, Food and Water Watch says, financing is also more expensive for private companies, which are not eligible for tax-free bonds, and private water companies are usually less efficient at water delivery. And because there is no effective competition to provide water in a given area (private water utilities are essentially local monopolies) there is no market incentive to cut costs.

According to the *Wall Street Journal* article, Atlanta privatized its water service in the late 1990s, but had to retake control four years later because of poor water quality and cost overruns. And there was a public uproar in Illinois last year when the largest private water company, Illinois American Water Co., requested a 30 percent rate increase, which it said was needed for infrastructure improvements.

Given that access to clean water is among the most basic human needs, shouldn't we think twice before selling it off for a short-term financial fix?

10 thoughts on "What is the Benefit of Privatizing Water?"



Consumer Reviews | September 7, 2010 at 10:30 am

I agree. I think selling off water could get out of hand and ugly. We all need clean water to survive, and should work to keep our water clean. However, I don't think we need to allow 'money hungry greed mongers' control it.

Kind regards.



Clarice Jacobson | September 7, 2010 at 1:09 pm

Privatized water service is unwise. Do not approve of privatized water service. Thank you for this information.



Bob B | September 7, 2010 at 5:03 pm

I've been in the water business for years, as a consumer advocate and a private utility advocate. The bottom line is government-supplied water service is held to lower standards than private water service. Municipal water utilities are, literally, slush funds for local politicians. Private ownership drives waste out and forces accountability in- accountability to customers, regulators, shareholders and employees. Municipal ownership does none of this. Nor does government accounting make the movement of money transparent. Our children and grandchildren are already paying for our roads and other infrastructure- shouldn't we be in a "user pays" system for water and wastewater, rather than a "bonding, taxing, keep rates low today and let the next generation pay" system? Because that's what F&W Watch and organizations like that would have you do. Punt your problems to your grandchildren, like they won't have enough problems already.



PS | September 9, 2010 at 2:08 pm

In response to Bob B's comments:

"The bottom line is government-supplied water service is held to lower standards than private water service."

If that is the case, then the solution is to raise government standards.

"Private ownership drives waste out and forces accountability in- accountability to customers, regulators, shareholders and employees." Private sector employees are only accountable to their company and the companies are accountable to their shareholders. Where do the consumers (the community) come in? Not to mention that all companies and their shareholders don't have 200-year contracts. Thus, they are after short-term profit maximization, not the long-term well-being of the community or protection and sustainability of their natural resources. If the government is in-charge, the public can pressure them into improving services in many ways. If the community is dissatisfied with the services of a private company, they have to buy back their own water rights which is quite costly which isn't even an option in some contracts. "Nor does government accounting make the movement of money transparent." Do private companies make their financial resources fully transparent? They BID on contracts. I don't know about you, but I wouldn't want my right to water to be on put on auction. Once the company acquires the 30- to 50-yr contract, it effectively creates a monopoly and can raise prices as much as it wants since water isn't a luxury, but a necessity.

Perhaps the solution lies in a decentralized tripartite approach, involving the community, the private sector and the government.



daroo | September 13, 2010 at 9:16 am

Privatization of water is among the worst ideas of modern human happenings. The American-Capitalist system is, without doubt, the most ecologically destructive human apparatus this planet has ever seen. When profit motive (by route of privatization) dominate philosophy, approach, and decision making – we commodify living creatures, human labor, and vital (priceless) resources and ecosystem services.

Such mis-use of renewable resources (water, topsoil, forests, etc ...) by humans turns them quickly into non-renewable resources. Can privatization help to conserve fresh water resources? Historical example tells us very plainly that the answer is no – at least, not without strong government regulation and enforcement to protect the well-fare of workers; the integrity of ecological systems, and the diversity of the biological community. Though, in reality, such regulations are often weakened by the infiltration of corporate persons into our system of governance. And, enforcement of such regulations (CWA, ESA, CAA, etc ...) is lacking severely.

Remember – we, the people (in theory) in the USA have access to our government. In theory, governments are accountable to the people (though, corporate persons have a much stronger financial voice than us real persons). Private corporations are accountable only to their boards and shareholders – and their purpose is to squeeze financial profit out of our living planet by any means possible – most often resulting in the destruction of the very systems their profits depend upon. A sad irony, really. And, historically, private corporations seek to clean their spreadsheets by externalizing costs to our shared environment and to the public at large.

Let us also remember, water has been recognized by the UN as a basic human right.



Wes Strickland | September 13, 2010 at 9:39 am

In response to PS's comment, yes, perhaps there would be some value in raising standards for government-owned utilities. In addition, there are many well-run government-owned utilities, so the problem is not universal. But neither of those points gets away from the reality that government regulators and government-owned utilities are on the same side of the fence, and there will always be political pressures within the government not to enforce certain standards against itself.

For the privately-owned utilities, in the US they are comprehensively regulated by the state public utility commissions. Thus, their monopoly status does not allow them to hold the community at their mercy. (All water utilities are monopolies, in any case, and this is not a feature unique to private utilities.) There is some variance, but the commissions normally give the water companies quite a thorough vetting. The rather modest return on shareholder investments of about 10% is compared to tax-free bonds from government-owned utilities (read: taxpayer-subsidized) at roughly 5% now, and the difference is typically more than offset by the efficiencies in the private company. The higher prices cited by F&WW are factually not true, especially when you consider the hidden tax-funded subsidies of the government-owned utilities. Full-cost comparisons typically show government-owned utilities being more expensive.

Wes Strickland

<http://privatewaterlaw.com>



Andy Pritchard | September 16, 2010 at 12:44 pm

What seems most concerning is the Nestle-style "bottling excess tap water." It's one thing if a private corp. holds the deed to a water treatment plant. It does seem a little sketchy, but regulations and enforcement can ensure fair pricing, etc. But it's another if a private company leverages that ownership to start bottling/shipping millions of gallons of water to who-knows-where. That kind of behavior has the potential to do real damage to water systems. When municipalities are negotiating these arrangements, they'd be wise to make sure they aren't giving away more than they bargained for.

daroo, to your point, I'd also include the notion of corporations-as-people among the worst ideas of modern human happenings!



Laura Debt | August 17, 2011 at 11:29 am

Giving the option to privatize water would be a huge mistake. Another way to drive people below poverty even further into poverty. Also another way to make the rich, richer. I have no problem with people gaining money, especially at increased rates but when it is at the expense of others I have a problem with it.



Christophe Carlier | March 24, 2015 at 5:45 pm

Thank you for sharing this information on the benefits of privatizing water. I never knew that certain cities were privatizing their water supplies. There are also potable water services that deliver water to certain places that request this. This can either be for swimming pools, permit potable water, or even emergency water supplies. Thank you again for sharing this article, it has been very informative.



Cynthia Bushnell | March 6, 2016 at 2:21 pm

From the CDC: "Private water companies, in contrast, have no responsibility to promote public health and wellbeing. They are accountable first and foremost to their owners and make their investment decisions based on profitability.²⁷ Because water service is a natural and often legal monopoly,²⁸ if a private water company charges high rates or provides bad service, customers cannot simply switch to another provider. Rather, they are stuck with the company unless they are able to move to another community, which is neither realistic nor desirable for most people."

"Private Ground Water Wells." Cdc.gov. Centers for Disease Control and Prevention. Drinking

Water Dec 2014. Web. 3 Mar.2016.

Michigan is a state trying to be run like a private for-profit enterprise, and Flint is the result.



PERC

SHOULD WATER BE PRIVATIZED? YES

Author: Terry Anderson

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Global Researcher

February 2008

By Terry L. Anderson

"No one washes a rental car" is a truism that suggests that ownership is crucial to stewardship. We also might say, "No one conserves water" for the same reason--too often it's not clear who benefits from conserving water because it is unclear who owns the water. As long as water's cheap, why fix the leaky faucet or switch to an efficient irrigation system?

Making the ownership link is relatively easy, because water is already claimed by someone, either a municipality, individual farmers or a government agency.

In practice, however, claims compete with one another, especially when water is scarce. miners and farmers on the Western frontier in the 19th century devised the prior-appropriation system to resolve conflict by moving water to higher-valued uses, and trades between farmers have gone on for a century.

The recent drought in the Southeast has raised a red flag about scarcity. The best mechanism for allocating water is to clarify the ownership among municipal, agricultural, industrial and environmental users and allow trades. If Atlanta must buy water from lower-valued agricultural users, farmers will have an incentive to save water and sell it, and municipal consumers will face a higher price and thus an incentive to conserve.

Some worry that water markets will put an undue burden on the poor while the rich continue enjoying their country club lawns. But the poor could be issued water stamps, akin to food stamps, for buying water. Or suppliers could charge less for minimum amounts of water, needed for necessities and increase the price for luxuries.

When water rights are allocated through political processes, the poor usually do not get many of the initial rights, forcing them to purchase if they are to get any. And data from

the Chilean water markets suggest the poor don't fare much better when water is traded on the open market. Perhaps there should be some guaranteed survival quantity of water that is a basic human right.

The problem is not a failure of water markets, but a failure of political allocation, which will not be rectified by preventing water markets from delivering water at a profit to all, regardless of income.

As water scarcity increases in the 21st century, water bureaucracies will bring more conflict, while water markets will foster more cooperation. With this choice, it will be impossible to keep a good water market down.

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WHY MARKETS ARE INEVITABLE

PERC Report: Volume 24, No.3, Fall 2006

By Robert Glennon

Some readers might wonder why I, a liberal Democrat, spent this past summer as a fellow at a free-market think tank. The answer is that I believe that water marketing is essential if we are to prevent further damage to the environment from development. Where I probably depart from some of my PERC associates is that I believe government must play a critical role in overseeing markets to protect the environment and third parties.

We in the United States are heading toward a water scarcity crisis: We can't make new water; all the water there is, is. In July, the city of Las Vegas, New Mexico, froze new development due to a lack of water. The city expects literally to run out of water this month.

Such a dramatic action may become commonplace in future years. In a recent survey, 36 states reported that they expect to suffer water shortages in the next ten years, yet demand for new supplies is increasing dramatically, mostly due to the increase in population. We now number 300 million and will exceed 400 million by the middle of the century. Fights over water are no longer confined to the American West, as disputes involving the Great Lakes, the Delaware River, the Potomac River, the Roanoke River, and the Ipswich River suggest.

With such a disconnect between supply and demand, what are our options? The conventional answer is to build a dam, divert a river, or drill a well. Each of these options has significant environmental and financial consequences. We have already dammed most rivers in the United States, some repeatedly. Few good dam sites remain. Even proposing a dam stimulates serious opposition and controversy. As for our rivers, we have decimated many of them, diverting so much water that they have literally run dry. I'm not merely talking about small creeks. Large rivers like the Colorado and Rio Grande no longer reach the ocean. Securing new supplies by diverting additional waters from rivers will come with a high environmental cost attached.

Options Drying Up

Recently, we have turned to groundwater as the panacea for water demands. But, as I show in my book *Water Follies* (2002), there is no free lunch. Think of an aquifer as a giant milkshake glass and think of each well as a straw in the glass. The law in most states permits a limitless number of straws in the same glass. That is a recipe for disaster, a classic illustration of the tragedy of the commons.

Groundwater pumping has severe environmental consequences. For example, the Ipswich River in Massachusetts has gone dry in five of the last eight years as a result of groundwater pumping. In Florida, a state that receives more than 50 inches of rain per year on average, scores of lakes have dried up due to groundwater pumping. In short, the conventional answers are not viable solutions.

Another option is to expand the supply of water. One technology that is getting considerable attention, especially in California, is desalination. But paraphrasing Winston Churchill, desalination is a technology that has great potential and always will. In certain localized areas, desalination may be a viable alternative. But for most situations it is incredibly expensive, involves the consumption of huge amounts of energy, and disposal of the intensely concentrated brine component creates a pollution problem.

Another option for expanding the supply is reuse of wastewater, municipal effluent. In Tucson, we have been using effluent to irrigate golf courses, parks, cemeteries, and other turf areas. In our future, the use of municipal effluent will increase, but it too has drawbacks. For one, it is a costly source of water, requiring a system of dual pipes. For another, scientists have recently discovered that even after wastewater has been treated, the water may contain endocrine disruptors, such as antibiotics. In short, reuse of municipal effluent offers an option for some circumstances, but it is not a silver bullet.

If we have limited ways to increase our water supply, what are our options for reducing demand? On this front, we can do a better job of conserving water. State and local governments can play a critical role in developing water conservation programs. The cities of Tucson and Albuquerque have made great strides in reducing per capita water usage. Yet the population of both cities continues to climb, offsetting the conservation savings. Moreover, further conservation success may be difficult to achieve, as existing programs have already picked the low-hanging fruit, and higher fruit is harder to harvest.

States should avoid conservation standards that require elaborate monitoring because they may be neither cost-effective nor successful. An example of overly complicated regulations is a California program that mandates landscape audits performed by certified landscape design auditors who must meet "irrigation specialist certification standards." The state requires landscape managers to pass state-established certification tests, but the workers who actually set the meters are often undocumented workers from Mexico who lack the language skills and training to comply with the rules. Still, water conservation programs, both voluntary and state-mandated, can encourage or require water conservation.

At this point, the nation's water future looks rather gloomy. Our existing water supply faces threats, the demand for new supplies is increasing, and our options for increasing the supply or reducing demand appear rather limited. What can we do? What we have not seriously undertaken is to encourage the reallocation of water from existing to new users through market forces and price incentives.

Let's examine water pricing first. Even though water is a valuable resource, many Americans pay more each month for their cell phones and cable television than they do for

water. Indeed, residents in some cities pay nothing for water. In Fresno, California, a controversy erupted in 2003 over whether meters should be installed in people's homes so that actual water use could be measured and paid for. Until now, city residents have been able to use as much water as they wish without any charge for it. Meters enable a city to insist that residents be responsible in their water use or pay financial consequences. The absence of meters has significance for water use. Fresno residents use about 300 gallons per capita per day but in neighboring Clovis, which has meters, water use is about 200 gallons per day. Sensible water pricing would encourage all water users to carefully examine how they use water, for what purposes, and in what quantity.

Retiring Existing Water Rights

Turning to market forces, new residential, commercial, and industrial development should pay its own way by being required to purchase and retire existing water rights in exchange for permission to build. Developers would retire a current water use as a condition for commencing a new use.

To those readers who are already committed to market-based solutions to environmental problems, what I am urging may seem elementary and an article of faith. To those more suspicious of water marketing, I ask them to consider, what are the alternatives?

To both camps, I plead that the reallocation of water is imperative if we are to avoid the environmental degradation caused by damming rivers, diverting streams, and pumping wells. And if reallocation of water is to occur, it is surely better that the process be between willing sellers and buyers than through government rules and regulations. Allocations through the public sector would occur at the direction of elected politicians or at the discretion of bureaucrats. Allocation decisions made through the political process would typically result in the water going to the most powerful economic interests in the state.

That said, I am mindful of the problem of market failure. Markets have difficulty internalizing environmental values. Water may be an economic good but it's also a public resource. There will be a critical role for the government to ensure that water transfers do not harm the environment or third parties. In some situations, the government may decide to prohibit water transfers in order to protect valued and unique communities. For example, northern New Mexico's acequias are centuries-old subsistence-farming communities of Hispanic Roman Catholics. These communities conceive of water as a community resource. The state of New Mexico has a compelling reason to protect this rich culture's traditional water use, even though the use may have a low economic value.

In short, I support using price signals and water marketing as tools to encourage water conservation and water reallocation. For true believers and agnostics alike, these tools offer the best way to protect the environment.

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ROBERT GLENNON was a Julian Simon Fellow at PERC this summer. He is the Morris K. Udall Professor of Law and Public Policy and a member of the Water Resources Research Center at the University of Arizona. He is the author of *Water Follies: Groundwater Pumping and the Fate of America's Fresh Waters* (Island Press, 2002). For more on the ideas in this essay, see Glennon (2005).

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