



Law, Social Justice & Global Development
(An Electronic Law Journal)

Macrodynamics of Globalisation, Uneven Urban Development
and the Commodification of Water

Professor P Bond
Centre for Civil Society,
School of Development Studies,
University of KwaZulu-Natal

p.bond@mail.ngo.za

This is a **refereed article** published on: 9 October 2008

Citation: Bond, P. 'Macrodynamics of Globalisation, Uneven Urban Development and the Commodification of Water', 2008 (1) Law, Social Justice & Global Development Journal (LGD). <http://www.go.warwick.ac.uk/elj/lgd/2008_1/bond>

Abstract

There are crucial relationships between global capitalist stagnation and volatility, neoliberal public policies, and uneven urban development that require explanation so as to develop appropriate progressive strategy. This is especially true in the water sector, where both rights discourses and global movement building are at advanced stages. On the one hand, the imposition of privatised urban water services is being challenged in many cities; on the other, though, ongoing pressure for commercialisation means that even after a multinational firm has left, the adverse implications of its reign may be durable. Johannesburg illustrates the problem. Working out contrasting discourses in political-economic analysis, as above, is crucial to any resolution of the problem in public policy via social struggle.

Keywords

Water, globalisation, economic crisis, decentralisation, urban services, tariffs, public health, social movements

1. Introduction

The period of globalisation has been characterised by stagnation, periodic bouts of economic volatility, and extreme uneven development. In this process, goods once considered part of the 'commons' have been commodified. Water is illustrative. Those concerned with law, social justice and development will need to address the difficulties faced in initiatives aiming for rights-based strategies, drawing from local to global scales, given how hard it is to establish model decommodified water systems under conditions of globalisation.

The problems are not new, of course. Rosa Luxemburg's 1913 book *The Accumulation of Capital* noted how 'relations between capitalism and the non-capitalist modes of production start making their appearance on the international stage'. She condemned not only that era's military tensions but also 'an international loan system... fraud, oppression, looting [which] are openly displayed without any attempt at concealment.'¹ I will argue that these colourful phrases capture the core dynamics particularly as capitalism has suffered bouts of crisis tendencies since the early 1970s, one reaction to which was the move to more intensive commodification of natural assets, including water. For Luxemburg, a principle concern was 'the deep and fundamental antagonism between the capacity to consume and the capacity to produce in a capitalist society, a conflict resulting from the very accumulation of capital which periodically bursts out in crises and spurs capital on to a continual extension of the market.'² The crisis tendencies in turn generate a renewed reliance upon 'primitive accumulation'; this is not merely an original feature of the transition from feudalism to capitalism, but remains one of capitalism's persistent and permanent tactics, which, as we will see, even affects the way cities deliver their water supplies. Following from these insights, David Harvey has shown that an extreme form of 'accumulation by dispossession' characterises market penetration of the Third World, including water, given the 'conversion of various forms of property rights (common, collective, state, etc) into exclusive private property rights'.³

To properly understand the link between global capitalist crisis macrodynamics and water commodification trends requires, however, a discussion of the crucial intervening public management strategy, namely decentralisation of service delivery functions *without decentralisation of sufficient resources*. Hence uneven urban development worsens simultaneously, as some regions and cities do well in the competition for resources, and others fare poorly. The crucial linkage between these processes emanates from core multilateral institutions, even the United Nations Development Program, which in its *Human Development Report* in late 2006 also posited 'water as a right'. The seeming contradiction can be understood, however, by paying attention to the details associated with market logic in the water sector, for example as are unfolding in 2008 in Johannesburg (subject of an earlier *LGD* analysis).⁴

Institutions like the UN are terribly important, for macrodynamic processes are driven by the crisis-ridden character of corporate capital accumulation, are lubricated by international financial institutions, aid agencies and trade treaties, and receive codification and legitimation at the UN. Moreover, the power of the Washington and Geneva multilateral agencies is typically combined with the persistence of neoliberal conditionality in donor aid. It is here that not only neoliberal macroeconomic conditions are imposed, especially entailing fiscal contraction – i.e., funding shortfalls that would otherwise have paid for water investments and operations - but in addition, a microdevelopmental neoliberalism is fostered.

In the former category are removal of import/export barriers, financial liberalisation, currency devaluation, lower corporate taxation, export-oriented industrial policy, austere fiscal policy (especially aimed at cutting social spending) and monetarism in central banking (with high real interest rates). In the latter category, in microdevelopmental terms, neoliberalism implies not only three standard microeconomic strategies: deregulation of business, flexibilised labour markets and privatisation (or corporatisation and commercialisation) of state-owned enterprises and state service provision (where water is a common target). In addition there are also mandates specifically for social sectors: the elimination of subsidies, promotion of cost-recovery and user fees, disconnection of services to those who do not pay, means-testing for social programs, and reliance upon market signals as the basis for local development strategies (again, water is often at the cutting edge of marketisation).

In sum, for more than three decades beginning with Chile in 1973 and gathering momentum during the 1980s under the Thatcher, Reagan and Kohl governments, neoliberal policies were applied by states that were often also so repressive and shrunken that redistributive social benefits withered away. As we see next, the broader context for this regression was an epoch of stagnation and financial volatility within the Northern advanced industrial countries. In turn, these features guaranteed ever-lower commodity prices

(and unequal exchange), high debt repayments, and vast capital flight. After considering the global evidence, we will be in a position to evaluate the implications for water.

2. Global stagnation, financial volatility and Third World underdevelopment

The world economy has witnessed a long slowdown in capitalist growth punctuated by extreme financial volatility. A decisive problem, signifying the beginning of neoliberal dominance and financial power, was the dramatic rise in the US interest rate in 1979-80 imposed by Federal Reserve chair Paul Volcker to halt inflation, restore the value of the US dollar, and in the process discipline labor. Very rapidly, by 1982, the high interest rate drove much of the Third World inexorably into debt crisis, austerity, decline and conflict.

However, an ever deeper process of stagnation was underway. The world's annual per capita GDP increase was already in decline: from 3.6% during the 1960s, to 2.1% during the 1970s, to 1.3% during the 1980s to 1.1% during the 1990s and 1% during the first half of the 2000s. (GDP measures are notorious overestimates, especially since environmental degradation became more extreme from the mid-1970s, the point at which a typical 'genuine progress indicator' went into deficit.) We must also acknowledge the extremely *uneven* character of accumulation across the world, with many sites suffering rapidly declining per capita GDP. With stagnation came lower demand for Third World exports, especially cash crops and minerals (until a recent but probably temporary upturn in commodity markets), and likewise there was increasing competition from a few sites of manufacturing export production (Mexico, Brazil, East Asia), hence diminishing the possibilities for Africa to grow through industrialisation.

The world macroeconomic context in the most recent period, since around 2000, includes some incongruent symptoms, especially in the US, Euro Area and Japan:

- a temporary recovery in trade, foreign investment flows (especially mergers and acquisitions) and stock market values after the late 1990s downturns, but now potentially ending in 2008 as financial paralysis hits credit markets;
- rising US and Japanese fiscal deficits, and an unprecedented US trade deficit (especially due to increased Chinese imports), while nearly all emerging market economies – aside from Turkey, Mexico, South Africa, the Czech Republic and Poland – ran large current account surpluses;
- an upturn in raw material prices from early 2002 (especially in energy and minerals/metals);
- an uptick in corporate profits as a share of GDP accompanied by sluggish private fixed investments, even though real US interest rates have been below 1 percent since 2001 (notwithstanding 17 small rate increases by the US Federal Reserve since 2004);
- a fast-rising household debt/income ratio in the US, causing greater uncertainty in global property markets – especially US housing - after apparent mortgage-driven peaks in 2005 and a subsequent collapse whose devaluation might reach \$3 trillion in scale;
- a substantial fall in the value of the dollar from its early 2002 high; and
- the ongoing role of emerging Asian economies as the engine of world growth, accounting for half of global GDP since 2000.⁵

Can incongruities within these macrodata be reconciled with political-economic analysis? Interestingly, in what is otherwise an excessively upbeat prognosis of 'the next wave of globalisation', even the World Bank recently acknowledged significant 'downsides', namely 'growing inequality, pressures in labor markets and threats to the global commons'. These are not only 'evident in the current globalization' but 'are likely to become more acute. If these forces are left unchecked, they could slow or even derail globalization.' The Bank notes that threats from 'environmental damage, social unrest, or new increases in protectionist sentiment are potentially serious', in part because 'returns to skilled labor will continue to

increase more quickly than those to unskilled labor, extending today's natural wage-widening tendencies evident in many, if not most, countries'.⁶

Whether it is 'natural' that the world is suffering the worst inequality in human history might be disputed. One of the core arguments by Harvey, for example, is that neoliberalism is an explicit political project of 'class war'.⁷ That this war has generated vast inequalities between people in poor countries and people in rich countries – measured by the international Gini coefficient – is no longer in dispute, even if India and China complicate matters due to uneven development.

For Harvey, the roots of crisis are in the excess productive capacity of capital, which ultimately leaves gluts of commodities, manufactured goods, and idle workers: 'Global capitalism has experienced a chronic and enduring problem of over-accumulation since the 1970s.'⁸ Robert Brenner finds evidence of this problem insofar as 'costs grow as fast or faster in non-manufacturing than in manufacturing, but the rate of profit falls in the latter rather than the former, because the price increase is much slower in manufacturing than non-manufacturing. In other words, due to international overcapacity, manufacturers cannot raise prices sufficiently to cover costs.'⁹ In different ways, other political economists (Simon Clarke, Ernest Mandel, Harry Shutt, Robert Biel) argued that the 1970s-90s global capitalist slow-down can best be traced to over-accumulation.¹⁰

For us to understand reactions to over-accumulation crisis, Harvey's notions of spatio-temporal 'fixes' (not resolutions),¹¹ and of systems of 'accumulation by dispossession' are appealing theoretical tools. They help explain why 'capitalist crisis' doesn't automatically generate the sorts of payments-system breakdowns and mass core-capitalist unemployment problems witnessed on the main previous conjuncture of over-accumulation, the Great Depression. That these systems of dispossession today more explicitly integrate the sphere of reproduction – where much primitive accumulation occurs through unequal gender power relations – reflects a 'reprivatisation' of life, as Isabella Bakker and Stephen Gill put it.¹² And these are notoriously difficult areas of political economy to measure and to correlate with accumulation.

One way of doing so is to measure In addition, reflecting the problem of intensifying primitive accumulation, the extraction of natural resources, which is now being recognised as a profound drain from the Third World. A nuanced breakdown of a country's estimated 'tangible wealth' should, even the World Bank now agrees, capture not just obvious oil-related depletion and rent outflows, but also other subsoil assets, timber resources, non-timber forest resources, protected areas, cropland and pastureland. There is no reason water should not be added to this list in cases where non-renewable water tables are increasingly at stake. The 'produced capital' normally measured in GDP accounting is added to the tangible wealth. African countries whose economies are primary product dependent fare very badly, according to the Bank methodology. In the worst case, Gabon's people lost \$2,241 each in 2000 (in spite of a \$3370 Gross Domestic Product), as oil companies deplete the country's tangible wealth. The Republic of the Congo (-\$727), Nigeria (-\$210), Cameroon (-\$152), Mauritania (-\$147) and Cote d'Ivoire (-\$100) are the other African countries whose people lost more than \$100 in tangible national wealth each in 2000 alone. Although a few countries were left with a net positive tangible wealth measure, the vast majority of African countries saw their wealth depleted.¹³

Moreover, a major study by Leonce Ndikumana and James Boyce estimated that from 1970 to 2004, total capital flight from 40 Sub-Saharan African countries was at least \$420 billion (in 2004 dollars). The external debt owed by the same countries in 2004 was \$227 billion; a substantial portion of debt was used for public infrastructure related investments, including water, even if (as noted below), the 'returns' were not impressive. Using an imputed interest rate to calculate the real impact of flight capital, the accumulated stock rises to \$607 billion. According to Ndikumana and Boyce,

'Adding to the irony of SSA's position as net creditor is the fact that a substantial fraction of the money that flowed out of the country as capital flight appears to have come to the subcontinent via external borrowing. Part of the proceeds of loans to African governments from official creditors and private banks has been diverted into private pockets – and foreign bank accounts – via bribes, kickbacks, contracts awarded to political cronies at inflated prices, and outright theft. Some African rulers, like Congo's Mobutu and Nigeria's Sani Abacha, became famous for such abuses. This phenomenon was not limited to a few rogue regimes. Statistical analysis suggests that across the subcontinent the sheer scale of debt-fuelled capital flight has been staggering. For every dollar in external loans to Africa in the 1970-2004 period, roughly 60 cents left as capital

flight in the same year. The close year-to-year correlation between flows of borrowing and capital flight suggests that large sums of money entered and exited the region through a financial “revolving door”.¹⁴

In the wake of such outflows, abundant evidence emerged that the tearing of safety nets under fiscal austerity and structural adjustment has heightened the vulnerability of women, children, the elderly and disabled people, especially in Africa.¹⁵ A comprehensive African literature review by Dzodzi Tsikata and Joanna Kerr shows that ‘mainstream economic policymaking fails to recognise the contributions of women’s unpaid labour - in the home, in the fields, or in the informal market where the majority of working people in African societies function. It has been argued that these biases have affected the perception of economic activities and have affected economic policies in ways that perpetuate women’s subordination.’¹⁶ Moreover, there were no attempts by World Bank and IMF economists to determine how state agencies could supply services that enhanced ‘public goods’ (and merit goods). The next point to consider, then, is the extent to which local elites are implicated in collaboration, through public policy and the kind of corruption termed ‘compradorism’, namely local elites’ service to the world system. Johannesburg allows us to continue exploring techniques and prices that correspond to world commercial trends, as well as world-class resistance thus engendered.

3. Internationally-mandated water policy

How do the macrodynamics sketched out above play out in terms of Third World governance, and how in turn do they relate to the restructuring of urban water systems especially in Africa? One city, Johannesburg, illustrates the processes. Consider, first, bad public policy, which is certainly in part to blame for the overall state of African exploitation, given the orientation of many state elites to parasitical, consumptive, unproductive activities. Complaints made by the Bretton Woods Institutions about African elites going ‘off track’ because they cannot stand the pressures of reform do have a grain of truth. From the early 2000s, the IMF began publishing lists of African countries that stayed the structural adjustment course and those that were off track. There were 23 African countries that had formal IMF programmes during the early 1980s, rising to 29 during the late 1980s. By the early 1990s, however, only 20 African countries were performing on track, while 11 were off track. The ratio worsened during the late 1990s, according to the IMF, with 16 on track and 14 off track.¹⁷

This kind of country breakdown, however, is easy in retrospect. If we go to perhaps the most extreme case of anti-IMF dirigisme in Africa, Zimbabwe, the picture becomes more complex. Indeed, Zimbabwe’s 1991-95 ‘Economic Structural Adjustment Programme’ (ESAP) was judged not ‘off track’ by the World Bank, but on the contrary, was given the highest possible score in the Bank’s *Project Completion Report*: ‘highly satisfactory.’¹⁸ Because of the satisfactory liberalisation of trade and finance, mass de-industrialisation occurred during the early 1990s, and the share of manufacturing in GDP dropped from a peak of 32% in 1992 to 17% in 1998.

Inappropriate public policies, including water privatisation, often stem directly from Washington loan or debt relief conditionalities. The power of the IMF over Africa was witnessed in the shrinkage of state spending in relation to national income nearly everywhere. On average, Africa recorded a decline of the deficit/GDP ratio from around 6% during the early 1990s to just under 4% a decade later; ironically, the fastest growing African economies actually increased their deficits by a full percentage point between the two periods. Likewise, monetary policy was tightened and central banks were discouraged from printing money to fuel inflation, in tune with the standard neoliberal menu. Hence sub-Saharan African inflation was reduced from double-digit rates prior to 2004, to on average 9% more recently. But higher poverty levels and extreme inequality were the logical corollaries of persistent structural adjustment. A Christian Aid report shows that during the 1990s, the 10% most open countries increased their rates of poverty (1\$/day and below) by 23%. The next two deciles of countries which had liberalised fastest witnessed a 5% increase in poverty. In contrast, those in the bottom half of the trade liberalisation ranking had a net improvement in poverty.¹⁹

In large African cities, the commercialisation of water is typically introduced so as to address classic problems associated with state control: inefficiencies, excessive administrative centralisation, lack of competition, unaccounted-for-consumption, weak billing and political interference. The desired forms will vary, but the options include private outsourcing, management or partial/full ownership of the service. In the field of water, there are at least seven institutional steps that can be taken towards privatisation: short-term service contracts, short/medium-term management contracts, medium/long-term leases (affermages),

long-term concessions, long-term Build (Own) Operate Transfer contracts, full permanent divestiture, and an additional category of community provision which also exists in some settings. Aside from French and British water corporations, the most aggressive promoters of these strategies are a few giant aid agencies - especially US AID and the British Department for International Development (DFID) - and the World Bank. DFID's use of the Adam Smith Institute as a key privatisation consultant in Africa has been the subject of great controversy. In Dar es Salaam, the government ejected Biwater in May 2005 because consultant promises of increased municipal revenues in the wake of dramatic retail price increases did not materialise.

How were the systems of liberalisation enforced? Initially, according to the fiercest critics of African compradorism, such as Walter Rodney, Frantz Fanon or Amilcar Cabral, there emerged a post-independence cadreship of leaders amenable to Northern objectives. In the first phase of class-formation, the new state-based ruling elites were compelled to issue statements about the need for national developmental projects. However, those elites and their institutions - e.g. the Organisation of African Unity, G77, Non-Aligned Movement or South Centre - failed to effectively challenge the North-South order.

A second phase of elite formation during the 1980s allowed a 'homegrown' technocratic neoliberalism to prosper, typically within finance ministries and central banks in African capitals, as well as allied think-tanks. As Jimi Adesina explains,

Cabral's injunction was that for the African petit bourgeois class to become one with the people, it must *commit class suicide*. In other words, it must turn its back on its natural instinct to realise its class potential of becoming a bourgeois class and share in the aspiration of the people - not only in nation building, widening of social access, but in the area of resource accumulation and control... [Instead there emerged] a *petty bourgeoisie with bourgeois aspirations*. This shift has been at the level of the state and the civil society (or societies), voluntary and compelled. The sociological effect was to (a) shift the balance of forces within the state itself in favour of neoliberal fellow-travellers, and (b) to establish neoliberal principles as the underlining framework of policy discussions.²⁰

At grassroots level, popular backlashes against neoliberalism occur regularly, according to recent *Afrobarometer* surveys and the *World Values Survey*: 'About 75% of the respondents agree that African governments are doing too little for people trapped in poverty.'²¹ In the most famous case of African malgovernance involving transnational capital - systemic corruption in procurement and contracts at the Lesotho Highlands Water Project (Africa's largest-ever dam system, which supplies Johannesburg with water) - the World Bank as financier of the apartheid-era (sanctions-busting) project first defended Masupha Sole, the man ultimately found guilty of bribery receipts (hence keeping him in his job for four years longer than he should have been, until 1998), and then dithered for years before finally debaring a major Canadian firm (Acres International) guilty of paying the official. It was only because the US Senate Foreign Relations Committee intervened and put pressure on the Bank that the debarment went forward in 2003.

Hence it is reasonable to ask whether institutions and agents supporting the Washington Consensus - including local elites and even the United Nations - can play a constructive role in African economic development or political governance. The question is especially important for the urban water sector, as witnessed in the World Health Organisation's (WHO's) Commission on Macroeconomics and Health and the UN Development Programme's *Human Development Report* (HDR), which both mandate - and in some cases (Bretton Woods Institutions and WTO) - impose a 'rights'-heavy but ultimately market-oriented public policy from above. In these ways, poor people are threatened by intensified commodification and diminished subsidies.

Thinking in the WHO is especially important insofar as an alleged post-Washington reformer, Jeffrey Sachs, led the Commission and permitted one working group - 'Improving Health Outcomes of the Poor', chaired by Prabhat Jha and Anne Mills - to argue the following:

Not only is improved water and sanitation not particularly cost effective as a health measure, it is also high in total costs. The 1993 World Development Report estimated cost of access ranged from US\$ 15 to US\$ 200 per person per year. Between 1981 and 1990, more than US\$ 134 billion was invested in efforts to expand water supply and sanitation services, approximately 34% of the sum coming from donors. Although some regions were able to make considerable progress in improving access, few attained any of the goals set. For example, in Africa rural water supply reached an additional 40 million people but only increased access to safe water from 22% to 32% of the population. In many places it is the poor themselves, rather than their

governments, who are acting to improve their lives by investing in water and sanitation. Household surveys in rural India have found that four times as many households invested their own resources in basic sanitation than were reached by government-funded services. Government roles are shifting from ownership and operation of infrastructure to monitoring and regulation of services provided by the private sector.²²

The explicitly neoliberal analysis codifies desperation-measure 'self-help' solutions and promotes formal privatisation with state regulation. The obvious rebuttal to the WHO assumption – state water failure is inevitable – was not considered,²³ i.e. that the reason newly-installed water systems had failed was the onset of structural adjustment, which meant that subsidies for maintenance and operating costs declined dramatically as fiscal crises hit most African states. Not taking such an obvious problem into consideration was the basis, then, for one of the more important rights-related multilateral agencies to dismiss further water investments as insufficiently 'cost-effective'.

On the other hand, the rise of rights discourses is also subject to cooptation within UN corridors, as became evident in the UNDP's recent book on water, authored primarily by Kevin Watkins, and launched in Cape Town in November 2006. Because South Africa was considered the UN's ideal-type setting for water policy, we are compelled to examine the explicit bias that enters their findings. After all, the title of a jointly authored article by UNDP administrator Kemal Dervis and SA finance minister Trevor Manuel declared, simply: 'Water is a human right'.²⁴ This is quite a statement from two who are known as lead practitioners and representatives of Washington policies. Dervis served the World Bank from 1977-2001 before moving home to Turkey as minister for economic affairs. In 2005 he won the UN's third-highest job: UNDP chief administrator, taking over from Mark Malloch Brown (now Kofi Annan's chief of staff), whose prior job was public relations vice president at the Bank. Manuel was chair of the board of governors of the Bank and IMF in 2000 and then chaired their important Development Committee from 2001-2005. As SA finance minister he imposed – without consultation – a neoliberal economic policy in 1996, partly designed by World Bank economists using a Bank economic model whose predictions were disastrously off the mark. The Bank also advised former SA water minister Kader Asmal in 1995 that he shouldn't provide the free water promised in the 1994 Reconstruction and Development Programme (RDP) and instead needed 'a credible threat of disconnections'. By 2003, 275 000 families faced water cutoffs due to non-payment, according to former water director-general Mike Muller. In 1999 the Bank labeled its 1995 advice as 'instrumental' for the 'radical revision' of water pricing policy here.²⁵

There are several problems with the UNDP's strategy, reflecting the uncomfortable merger of rights discourses with market realities. First, the 20 litre per person daily target recommended by the UNDP provides just one and a half flushes of the toilet; 50 would be more appropriate, but even that should be considered a bare minimum. A second problem relates to the characterisation of water access rights. According to Dervis and Manuel, 'those *who cannot afford to pay* [should] get it for free... In South Africa, the basic policy framework is now in place' thanks to 'the adoption of a rights-based approach to water supply' (emphasis added).

Dervis and Manuel adopt the means-tested philosophy. In contrast, South Africa's underlying constitutional philosophy (1996) and political mandate (2000) is for a universal policy that applies water rights to all residents. The shift to the rights strategy can be explained by prior post-apartheid water policies which failed:

- the state drastically increased the price of municipal water since 1994, especially affecting low-income black people – e.g., Johannesburg prices rose far higher than inflation, in part because of the construction of expensive Lesotho mega-dams whose raw water costs five times more than pre-dam water (conservation was not considered a serious option);
- operating subsidies from national to municipal governments were reduced during the 1990s by 85% in real terms, as one agency admitted, with especially large cuts in the national water budget that supported rural towns in former Bantustan homelands;
- the much smaller municipal water subsidies together with the doubling of unemployment in the years after apartheid (thanks to neoliberal macroeconomic policies) logically led to much higher non-payment rates for impoverished citizens, and then the disconnection of water supplies to roughly 1.5 million people per year, according to several studies;

- to deal with non-payment, the state began installing Ventilated Improved Pitlatrines ('VIPs') for poor people even in urban Johannesburg, as well as pre-paid water meters in low-income, black neighbourhoods, starting in Soweto; and
- rural families relying on state-supplied communal water taps witnessed the breakdown of many, if not most, systems, once again because of affordability constraints that prevented the 'full cost recovery' required to keep the taps turned on.

4. Water 'rights' in Johannesburg

To illustrate the way the government moved to rights rhetoric's, ostensibly away from such practices, we might consider the case of Johannesburg Water. The city began imposing pre-paid meters on low-income customers shortly after the British government's 1998 banning of these same devices (on grounds that self-disconnections due to poverty represent a public health threat – especially poignant for South Africa at a time of the HIV/AIDS crisis and in 2000-02 the country's worst-ever cholera outbreak). Perhaps the most complicated issue for officials from Suez, the Paris company chosen to run Johannesburg Water from 2001-06, was how to implement the 'Free Basic Water' policy promised by the African National Congress in the December 2000 municipal elections. The promise was, specifically, that 'ANC-led local government will provide all residents with a free basic amount of water, electricity and other municipal services, so as to help the poor. Those who use more than the basic amounts will pay for the extra they use.'

The ANC promise has excellent potential for redistribution. However, several problems can be immediately observed. First and most commonly, if a convex shaped municipal water price tariff is chosen by the town clerk, it negates this promise because the high price of the second block can cancel the benefits of the free first form. Second, the UNDP concedes the need for 'lifeline tariffs that provide sufficient water for basic needs free of charge or at affordable rates, as in South Africa.' But word 'sufficient' is subject to intense debate, with Johannesburg compelled by 2007 to offer 10 kiloliters, not six as specified in most state regulations, thanks to social contestation by activists and lawyers. Third, the SA Treasury, the Department of Water Affairs and Forestry, the Development Bank of Southern Africa and the Department of Provincial and Local Government persistently sought for-profit partners – and some NGOs which also have a full-cost recovery mentality – to implement policy. The UNDP's Urban Management Programme, the World Bank, the IMF and the World Trade Organisation have been pushing water commercialisation for years across Africa.²⁶

Indeed, in spite of the move to a water rights regime, more evidence of growing commercial – and hence lowering social – determinants of Johannesburg water policy is a remark by World Bank staff in 2002, about how they 'worked with the City [of Johannesburg (CoJ)] in recent years to support its efforts in local economic development and improving service delivery.' For example, Johannesburg's vision strategy document for 2030 'draws largely on the empirical findings of a series of World Bank reports on local economic development produced in partnership with the CoJ during 1999–2002, and places greater emphasis on economic development. It calls for Johannesburg to become *a world-class business location*.' The Bank argued 'for a *fiscally decentralized CoJ*' and for 'job creation by creating an *enabling business environment for private sector investment* and economic growth in Johannesburg' (emphasis added).²⁷ With urban entrepreneurialism comes uneven development, for this approach militates against meeting the needs of poor people for higher levels of municipal services, via cross-subsidies from business. To adopt such a strategy would make Johannesburg less competitive amongst other global investment locations.

Another crucial issue for Johannesburg is cross-border water transfers, given that a large quantity of the city's water is coming from Lesotho. The UNDP HDR notes 'the potential benefits of cooperation' by arguing that that the Lesotho Highlands Water Project 'is generating revenue for Lesotho and improved water for South Africa'. Unmentioned by the UNDP are the 1998 SA National Defense Force invasion of the Katse Dam site (when two dozen sleeping Basotho soldiers were killed), the massive ecological damage, the tens of thousands of peasants displaced, and the massive increase in water prices caused by this notoriously corrupt, apartheid-era sanctions-busting mega-dam scheme – or the alternative strategy (never attempted) of conservation and less uneven regional development.

In one paragraph, however, the UNDP report concedes some problems with South Africa's approach:

‘As the reforms have rolled out, they have generated a political debate over design and implementation. Some argue that the 25-liter threshold for free basic water is too low. Supplies in some areas have been erratic, forcing households to collect water from far away. Moreover, government pricing policies have led to supply cutoffs for nonpayment in some areas, raising concerns about affordability. Progress in sanitation has been less impressive than in water. There are still 16 million people— one in three South Africans—without access to basic sanitation. The absence of a consensus on an acceptable basic level of sanitation, allied to problems in generating demand, has contributed to the failure.’

This is a damning indictment of post-apartheid water policy design and implementation mistakes. It helps explain the high level of SA social protests: 20 000 in a recent 24-month period (reported by the SA Police Services). Johannesburg's water wars have become world famous, as citizens' groups such as the Soweto Electricity Crisis Committee and other Anti-Privatisation Forum affiliates illegally reconnect pipes that have been cut off due to non-payment, or destroy the hated pre-paid water meters, or dump excrement from the apartheid-era 'bucket system' of sanitation at the doors of their elected officials.

In addition, the UNDP report criticizes Johannesburg's controversial contract with Paris-based Suez, 'because delegation—the transfer of operating authority from local government to utility and from utility to third companies—can obscure accountability and delivery' and because Johannesburg metro is 'both utility shareholder and regulator.' Indeed, 'captive regulators' are ubiquitous in SA, and the national government's failure to even 'name and shame' recalcitrant municipalities – as promised by then water minister Ronnie Kasrils in 2003 - is now legendary. The only serious watchdogs of the Johannesburg Water company have been Anti-Privatisation Forum activists in several black townships who keep up pressure for human rights, and associated lawyers. But even a constitutional lawsuit filed in the High Court against Johannesburg Water, argued in December 2007,²⁸ did not prevent the city council from announcing in March 2008 four new policies with adverse implications for poor people:

- 1) recommit to the failed 'indigency register' - which records only a small proportion of the city's poor - for services, in contrast to mandates in the Reconstruction and Development Programme, Constitution and ANC municipal campaign promise of Free Basic Services during the December 2000 election. This in turn means that a huge group of low-income people will not be included in free water allocations, including those Johannesburg residents who lack formal papers either because of Home Affairs Department procrastination or foreign origin.
- 2) further stigmatise poor people via means testing, since gaining indigency status entails accepting invasive - and inevitably inaccurate, ad hoc often whimsical - state surveillance. Wild plans are being made to link up various state departments' records so as to monitor poor people's consumption under a microscope.
- 3) terminate universal free services for all, even if that directly contradicts the ANC's 2000 municipal election promise that says 'all residents' will receive free services. In the process, divide consumers into stratified classes, a technique which in turn will eventually diminish political support for Free Basic Water.
- 4) rely even more upon prepaid meter technology for low-income consumers, and do not offer an alternative conventional meter option in many low-income black townships.

To disguise the impact of these strategies, Johannesburg Council simultaneously adopted a discourse of redistributive, pro-poor, and conservation-minded pricing. However, the factors described above cancel out the marginal progressive revision of the tariff blocks. The newly-announced 2008/09 prices (Table 1) include above-inflation increases for higher blocks of consumption, so a large proportion of Johannesburg's water-neediest residents will suffer. Moreover, marginally higher tariffs for Johannesburg's large-volume household consumers will not contribute to a 'culture of conservation', as the Council claims. In Durban, an MBA thesis by former city official Reg Bailey shows that water 'price elasticity' - the negative impact of a price increase on consumption - for the city's highest-income third of the population is -0.10. The doubling of the real (after-inflation) water price from 1997-2004 generated less than a 10% reduction in use. What is proposed by Johannesburg for high-volume users is not a 100% increase, as in the case of Durban, but a 3% increase. No conservation can be expected from hedonistic water consumers, if Durban is any guide.

Table 1: Shifts in Johannesburg's convex tariff curve (R8=\$1):

Kilolitres per connection per month	2007/08 Tariff (R/kl)	2008/09 Tariff (R/kl)
0-6	Free	R2.50
7-10	R4.40	R4.40
11-15	R5.90	R5.90
16-20	R7.40	R7.86
21-30	R8.80	R9.43
31-40	R8.80	R9.52
41 +	R10.40	R11.36

Free basic water is increased from 6kl to 10kl per household per month, for registered indigents.

(Source: City statistics, www.johannesburg.org)

Instead, the impact of higher prices will mainly be felt by low-income people, whose budgets are so stretched that they will not afford the increases, especially during a year, 2008, of anticipated 100% staple food price inflation, 60% electricity price increases and 50% fuel price rises. To illustrate, in Durban, the lowest-income third of regular bill-paying consumers had a -0.55 price elasticity, meaning that when the price of water doubled from 1997-2004, they cut back their consumption dramatically, from 22 kl to 15kl per household per month.

The result in Johannesburg will be further water deprivation for poor people, alongside sustained excess consumption in the white suburbs, with their well-watered English gardens and swimming pools. This in turn, added to construction of a new coal-fired electricity generator with vast coolant needs, will create demand for another multibillion dollar addition to the Lesotho Highlands Water Project, the corrupt megadam system which supplies Johannesburg with much of its water. In turn, this will raise the raw price to Johannesburg, and the adverse cost impact of new dams will, in turn, will be felt mainly by those who cannot afford to pay, as well as by thousands more Basotho highlands residents displaced from their homes and fields.

The alternative is to follow the course set out by the national Coalition Against Water Privatisation and Soweto residents in the court case heard against the city in December 2007. That strategy would prohibit pre-paid meters and other discriminatory technologies aimed at limiting low-income people's consumption. It would end the ineffectual indigency policy and provide a much larger block of free basic water on a per person (not per household) basis. To pay for this, a fair pricing policy would charge rich residents and businesses a far higher amount for their consumption, so as to both achieve serious conservation and raise funds for cross-subsidies to everyone else. Such cross-subsidisation can work in a city like Johannesburg, but can it be attempted elsewhere?

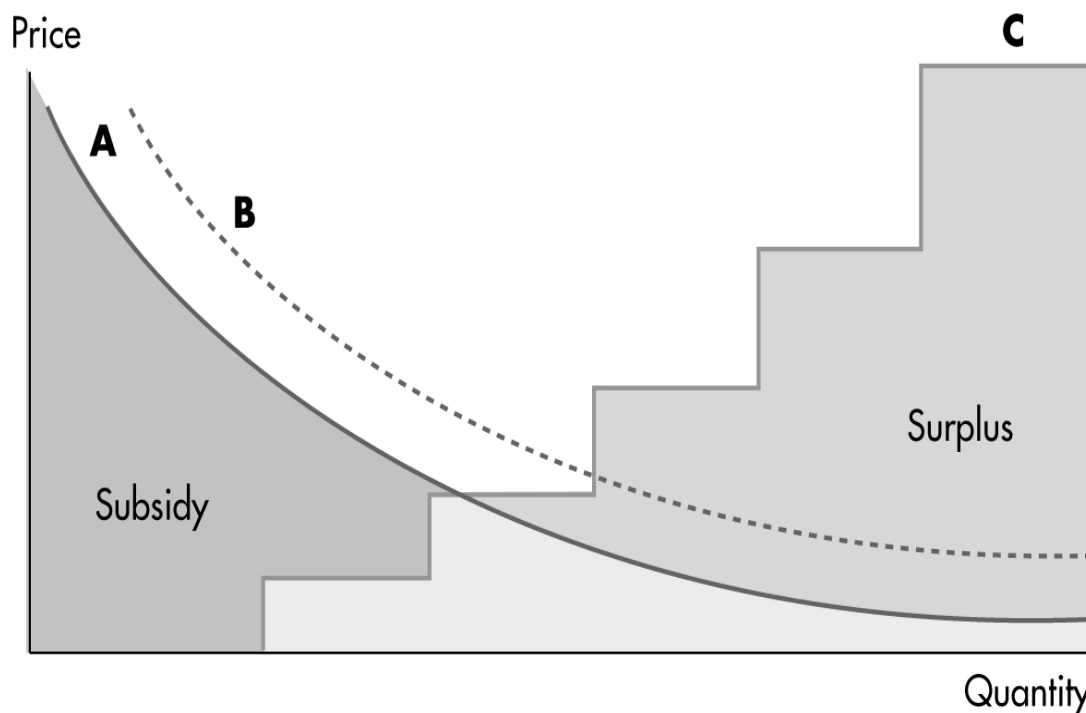
5. Conclusion: Towards a progressive alternative

Johannesburg shows us that water – especially its price - can be intensely political. To call commodification into question permits a variety of other social and environmental goods to be considered as well. For in the course of outsourcing to private (or even NGO) suppliers, the benefits of water as a public good (or 'merit good') - namely, environmental, public health, gender equity and economic multiplier features - are generally lost. The lack of 'effective demand' by poor consumers, and the difficulty in identifying accurate 'shadow prices' for subsidies, together make it very difficult to internalise these externalities via the market. Regulation is normally insufficient in even middle-income countries. Indeed, the aspect of water commodification that is both most dangerous from the standpoint of low-income people, and most tempting from the side of management, is to reduce cross-subsidisation within the pricing system, sometimes termed 'cherry-picking' high-volume users, so as to signify that within a local retail market, the premier customers are served and the masses are left behind.

The mandate to recover 100% of operating and maintenance costs – or what can be termed the 'short-run marginal cost' of water (represented by Line A in Figure 1) – is critical. The marginal cost curve tends to

fall as users increase their consumption, because it is cheaper to provide the next unit of water to a large consumer than a small consumer. Reasons include the large-volume consumers' economies of scale (i.e., bulk sales), their smaller per unit costs of maintenance, the lower administrative costs of billing one large-volume consumer instead of many small ones, and the ability of the larger consumers to buy water at a time when it is not in demand - e.g., during the middle of the night - and store it for use during peak demand periods. The premise here is that the pricing of water should correspond directly to the cost of the service all the way along the supply curve. Such a system might then include a profit mark-up across the board (Line B), which assures the proper functioning of the market and an incentive for contracting-out or even full privatisation by private suppliers.

Figure 1: Pricing water - marginal cost (A), for-profit (B), and cross-subsidised lifeline plus block tariff (C)



The progressive principle of cross subsidisation, in contrast, violates the logic of the market. By imposing a block tariff that rises for larger consumers (Line C), a genuinely pro-poor municipality or central state regulator would consciously distort the relationship of cost to price and hence send economically 'inefficient' pricing signals to consumers. As a result, such distortions of the market logic introduce a disincentive to supply low-volume users, *in the case of privatised or commercialised water*. (In the case of public-supplied water, the two main incentives to supply even the poorest residents are political support and disease mitigation to save public health system expenses.) For example, in advocating against South Africa's subsequent move towards a free lifeline and rising block tariff, the World Bank disapprovingly advised that water privatisation contracts 'would be much harder to establish' with a free water block (Line C).²⁹

The progressive rebuttal is that the difference between Lines A and C allows not only for free universal lifeline services and a cross-subsidy from hedonistic users to low-volume users. There are also two additional benefits of providing free water services to some and extremely expensive services to those with hedonistic consumption habits: higher prices for high-volume consumption should encourage conservation which would keep the longer-run costs of supply down (i.e., by delaying the construction of new dams or supply-side enhancements); and benefits accrue to society from the 'merit goods' and 'public goods' associated with free provision of services, such as improved public health, gender equity, environmental protection, economic spin-offs and the possibility of desegregating residential areas by class.

Another progressive critique of private suppliers who require tariffs reflective of marginal cost plus profit, is that water infrastructure is a classical natural monopoly. The large investments in pipes, treatment centres

and sewage plants are 'lumpy' insofar as they often require extensive financing and a long-term commitment, for which the state is more capable. To the argument that a progressive tariff could still coincide with a private sector supplier through a strong state regulator, progressives mistrust 'captive regulatory' relations given the long history of corruption in the water sector. Rebutting those who argue that African states are intrinsically incapable of providing water services, progressives cite more proximate reasons for the recent degeneration of state water sectors: 1980s-90s structural adjustment programs which decapitated most states; corrupt state bureaucrats; weak trade unions; and disempowered consumers/communities.

Finally, the progressive argument for making a water subsidy universal - not means-tested for only 'indigent' people - is both practical and deeply political. If the service is means-tested, it invariably leads to state coercion and stigmatisation of low-income people by bureaucrats. Further, it is an administrative nightmare to sort out who qualifies since so many people depend upon informal and erratic sources of income. More philosophically though, it is a premise of most human rights discourse that socio-economic rights such as water access are *universally* granted, not judged on the basis of a subjective income cut-off line, especially given the differences in household size for which different low-income people are responsible. This is partly because international experience shows that defence of a social welfare policy requires universality, so that the alliance of poor, working-class and middle-class people that usually win such concessions from the state can be kept intact.

What this discussion of the economics of water resources allocation – in the context of global capitalist stagnation, volatility, neoliberal public policies, compradorism, uneven urban development and accumulation by dispossession – demonstrates is that these processes can be contested, from below. It is, indeed, in the water sector that the pursuit of neoliberalism has generated some of the most intense struggles in the world today. The economics of privatised or commercialised urban water services have been challenged in cities ranging from Cochabamba, Bolivia – where the US firm Bechtel tried to take ownership of rainwater collected by poor residents following dramatic price increases – to Accra, Ghana, to most Argentine cities, to Manila and Jakarta, to Atlanta and Johannesburg, and to many other sites in between. Needless to say, a prerequisite for improving state supply of water is dramatically intensified advocacy for debt repudiation and the implementation of exchange controls, so as to halt the outflow of finances that would make expanded systems financially feasible. Working out the contrasting discourses in political-economic analysis, as above, is crucial to any resolution of the problem in public policy via social struggle.

Endnotes

¹ Luxemburg, R. (1968) *The Accumulation of Capital* (New York: Monthly Review Press) at pp.452-453.

² Luxemburg, R. *The Accumulation of Capital*, p.347.

³ Harvey, D. (2003) *The New Imperialism* (Oxford and New York: Oxford University Press).

⁴ Bond, P. and J.Dugard (2008) 'Water, Human Rights and Social Conflict: South African Experiences', *Law, Social Justice and Global Development* http://www.go.warwick.ac.uk/elj/lgd/2008_1/bond_dugard.

⁵ Bank for International Settlements (2006) *75th Annual Report* (Basel: Bank for International Settlements) at pp.12-32.

⁶ World Bank (2006), *Global Economic Prospects 2007*, Washington, pp.vii, xxi.

⁷ Harvey, D. (2007) 'Neoliberalism as Creative Destruction', *The Annals of the American Academy of Political and Social Science* 610, pp. 21-44.

⁸ Harvey, D. (2005) *A Brief History of Neoliberalism*, (New York: Oxford University Press)

⁹ Personal communication, 9 November 2004. See also Brenner, R. (1998) 'The Economics of Global Turbulence', *New Left Review*, 229, pp.102-111, Figure 8, Table 9; and Brenner, R. (2004), 'New Boom or New Bubble,' *New Left Review* 25, pp.65-69.

¹⁰ Clarke, S. (1988) *Keynesianism, Monetarism and the Crisis of the State* (Aldershot: Edward Elgar) pp.279-360; Harvey, D. (1989) *The Condition of Postmodernity* (Oxford: Basil Blackwell) pp.180-197; Mandel, E. (1989), 'Theories of Crisis: An Explanation of the 1974-82 Cycle,' in Gottdiener, M. and Komninos, N. (eds.) *Capitalist Development and Crisis Theory: Accumulation, Regulation and Spatial Restructuring* (London: Macmillan) pp.30-58; Shutt, H. (1999) *The Trouble with Capitalism* (London: Zed Books), pp.34-45; and Biel, R. (2000) *The New Imperialism* (London: Zed Books), pp.131-189.

¹¹ Harvey, D. (1999) *The Limits to Capital* (London: Verso).

¹² Bakker, I. and Gill, S. (2003) (eds.) *Power, Production and Social Reproduction* (Basingstoke, Palgrave Macmillan).

- ¹³World Bank (2005) *Where is the Wealth of Nations?* (Washington DC: World Bank) at p.66.
- ¹⁴Ndikumana, L. and Boyce, J. (2008) 'Capital Flight from Sub-Saharan Africa', *Tax Justice Focus* 4(1) at p.5.
- ¹⁵Sahle, E. (2006) 'Gender, States and Markets in Africa', *Studies in Political Economy*, 77, pp. 9-32
- ¹⁶Tsikata, D. and Kerr, J. (eds.) (2002) *Demanding Dignity: Women Confronting Economic Reforms in Africa* (Ottawa: The North-South Institute and Accra & Third World Network-Africa).
- ¹⁷International Monetary Fund (2005) *Sub-Saharan Africa Regional Economic Outlook* (Washington: IMF) at p.25.
- ¹⁸World Bank (1995) *Project Completion Report: Zimbabwe: Structural Adjustment Program* (Washington, DC: World Bank) at p.23.
- ¹⁹Christian Aid (2005) *The Economics of Failure: The Real Cost of 'Free' Trade for Poor Countries* (London: Christian Aid) at p. 5.
- ²⁰Adesina, J. (2002), 'NEPAD and the Challenge of Africa's Development: Towards the Political Economy of a Discourse,' Unpublished paper, Rhodes University Department of Sociology, Grahamstown.
- ²¹World Bank (2005) *Meeting the Challenge of Africa's Development: A World Bank Group Action Plan* (Washington DC: World Bank) at p.5.
- ²²World Health Organisation (2002) *Improving Health Outcomes of the Poor: Report of Working Group Five of the Commission on Macroeconomics and Health* (Geneva: WHO) at p.26.
- ²³During an Arusha health research meeting in late 2002, I confirmed in a discussion with Mills that she had not considered the lack of operating and maintenance subsidies when making the argument about capital investments.
- ²⁴Dervis, K. and Manuel, T. (2006) 'Water is a Right', *Mail&Guardian*, 17 November.
- ²⁵Bond, P. (2006) *Talk Left, Walk Right: South Africa's Frustrated Reforms* (Pietermaritzburg, University of KwaZulu-Natal Press).
- ²⁶Hence a discursive innovation appears in the article by Dervis and Manuel: 'Too much of the policy discussion on water delivery has been dominated by a dead-end debate on privatisation versus state ownership'. They advocate 'some combination of public and private sector involvement.' These words ring hollow in view of the record of water privatisation in Africa: systematic failure.
- ²⁷World Bank (2002) *South Africa: Monitoring Service Delivery in Johannesburg* (Washington DC: World Bank) at pp.1-9.
- ²⁸<http://www.law.wits.ac.za/cals/phiri/index.htm>
- ²⁹Roome, J. (1995), 'Water Pricing and Management: World Bank Presentation to the SA Water Conservation Conference', unpublished paper, South Africa, 2 October, at p.57.

References

- Adesina, J. (2002), 'NEPAD and the Challenge of Africa's Development: Towards the Political Economy of a Discourse,' Unpublished paper, Rhodes University Department of Sociology, Grahamstown.
- Bakker, I. and Gill, S. (2003) (eds.) *Power, Production and Social Reproduction* (Basingstoke, Palgrave Macmillan).
- Bank for International Settlements (2006) *75th Annual Report* (Basel: Bank for International Settlements).
- Biel, R. (2000) *The New Imperialism* (London: Zed Books).
- Bond, P. (2006) *Talk Left, Walk Right: South Africa's Frustrated Reforms* (Pietermaritzburg, University of KwaZulu-Natal Press).
- Bond, P. and J.Dugard (2008) 'Water, Human Rights and Social Conflict: South African Experiences', *Law, Social Justice and Global Development* http://www.go.warwick.ac.uk/elj/lgd/2008_1/bond_dugard.
- Brenner, R. (1998) 'The Economics of Global Turbulence', *New Left Review*, 229, pp. 1 – 264.
- Brenner, R. (2004), 'New Boom or New Bubble,' *New Left Review* 25, pp. 57-103.
- Christian Aid (2005) *The Economics of Failure: The Real Cost of 'Free' Trade for Poor Countries* (London: Christian Aid).

- Clarke, S. (1988) *Keynesianism, Monetarism and the Crisis of the State* (Aldershot: Edward Elgar).
- Dervis, K. and Manuel, T. (2006) 'Water is a Right', *Mail & Guardian*, 17 November.
- Harvey, D. (1989) *The Condition of Postmodernity* (Oxford: Basil Blackwell).
- Harvey, D. (1999) *The Limits to Capital* (London: Verso).
- Harvey, D. (2003) *The New Imperialism* (Oxford and New York: Oxford University Press).
- Harvey, D. (2005) *A Brief History of Neoliberalism*, (New York: Oxford University Press).
- Harvey, D. (2007) 'Neoliberalism as Creative Destruction', *The Annals of the American Academy of Political and Social Science* 610, pp. 21-44.
- International Monetary Fund (2005) *Sub-Saharan Africa Regional Economic Outlook* (Washington: IMF)
- Luxemburg, R. (1968) *The Accumulation of Capital* (New York: Monthly Review Press).
- Mandel, E. (1989), 'Theories of Crisis: An Explanation of the 1974-82 Cycle,' in Gottdiener, M. and Komninos, N. (eds.) *Capitalist Development and Crisis Theory: Accumulation, Regulation and Spatial Restructuring* (London: Macmillan).
- Ndikumana, L. and Boyce, J. (2008) 'Capital Flight from Sub-Saharan Africa', *Tax Justice Focus* 4(1).
- Roome, J. (1995) 'Water Pricing and Management: World Bank Presentation to the SA Water Conservation Conference', Unpublished paper, South Africa, 2 October.
- Sahle, E. (2006) 'Gender, States and Markets in Africa', *Studies in Political Economy*, 77, pp. 9-32.
- Shutt, H. (1999) *The Trouble with Capitalism* (London: Zed Books).
- Tsikata, D. and Kerr, J. (eds.) (2002) *Demanding Dignity: Women Confronting Economic Reforms in Africa* (Ottawa: The North-South Institute and Accra & Third World Network-Africa).
- World Bank (1995) *Project Completion Report: Zimbabwe: Structural Adjustment Program* (Washington, DC: World Bank).
- World Bank (2002) *South Africa: Monitoring Service Delivery in Johannesburg* (Washington DC: World Bank).
- World Bank (2005) *Meeting the Challenge of Africa's Development: A World Bank Group Action Plan* (Washington DC: World Bank).
- World Bank (2005) *Where is the Wealth of Nations?* (Washington DC: World Bank).
- World Bank (2006) *Global Economic Prospects 2007* (Washington DC: World Bank).
- World Health Organisation (2002) *Improving Health Outcomes of the Poor: Report of Working Group Five of the Commission on Macroeconomics and Health* (Geneva: WHO).