

# The Logic of Public Services

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One should beware vampire squids bearing gifts. It would also be best to cover your ears when the siren songs of privatization are offered.

Even were Goldman Sachs not the buyer, the Danish government's decision to sell a portion of state-owned energy company Dong Energy A/S goes against the pattern of recent years of governments taking back control of utilities after having dropped them into the sweaty palms of investors. Shareholders expect maximum profits from investments, and utilities that provide basics like electricity and water are not excepted.

Many a local government has learned the hard way that even water is a commodity from which to squeeze a profit once privatized, with human need an afterthought. Decades of ideology have attempted to instill the idea that the private sector is always superior to government; that government can only mismanage what is in its hands.

Although attempting to flip this discredited, self-serving phantasmagoria by arguing the complete opposite would not stand up to scrutiny, either, the realm of facts and data firmly contradict the standard corporate ideology. Government after government has found that privatization was a mistake in what has become a wave of "re-municipalization" — the return of public services to public management.

## Paris takes back its water

France had been a leader in privatizing water, leading to the rise of two of the world's biggest water companies, Suez and Veolia. As recently as 2006, the private sector provided drinking water services to four-fifths of the French population. In parallel, starting in early 1990s, the European Union began issuing directives [mandating that national governments implement legislation deregulating the electricity market](#). E.U. bureaucrats sought to separate ("unbundle") generation, transmission and distribution of energy, supposedly to ensure price competition.

In France, according to a [paper published in the March 2012](#) issue of *Water International*:

"This model was favoured by several factors, including strong fiscal centralization, the rigid character of public accounting, the creation of private water companies, and the establishment of a legal framework that protected the interests of the concessionaires." [page 3]

The paper, "The remunicipalization of Parisian water services: new challenges for local authorities and policy implications," written by Joyce Valdovinos, reports that a series of investigations found that there was no way to verify work that should have been long completed, a lack of transparency of technical and financial data, discrepancies between declared profits and actual profits, and the creation of extra profits by manipulating maintenance costs. When a Left coalition won the 2001 city election, it believed returning water services to public management would lead to better functioning, more transparency, greater public control, and the ability to stabilize prices.

Paris' contracts with Suez and Veolia expired in 2010; during the preceding 25 years [water prices there had doubled](#), after accounting for inflation, according to a paper prepared by David Hall, a University of Greenwich researcher. Professor Hall reports that the two companies had secret clauses in their contacts allowing automatic price increases. Despite the costs of taking back the water system, the city saved €35 million in the first year and was able to reduce water charges by eight percent.

About [40 other French cities intend to "re-municipalize"](#) their water services. Higher prices and reduced services have been the norm for privatized systems, Professor Hall's paper says:

“A report by the Cour des comptes in 1996 identified many problems with private water services in France, including lack of competition, corruption, and lack of transparency, but also price increases which it firmly concluded were linked to privatisation of water services. ... The association of municipalities publishes each year price comparisons, which in 2009 showed that private water prices were on average 31% higher than in public water services.” [page 19]

### **Sellers’ remorse in Germany**

A strong trend toward public provision of services is also under way in Germany, for many of the same reasons. A paper written by Hellmut Wollmann of Humboldt Universität zu Berlin [found a similar dynamic east of the Rhine](#):

“Since the late 1990s, it has become more and more evident that the (high flying) neoliberal promises that (material or functional) privatization would usher in better quality of services at lower prices has not materialized. On the contrary, private service providers have often made use of the next possible opportunity to raise prices and tariffs while at the same time deteriorating the working conditions of their employees.” [page 15]

In response to that, 44 new local public utilities have been set up and more than 100 concessions for energy distribution networks and service delivery have returned to public hands in Germany since 2007, according to Professor Hall’s paper. Further, German goals of phasing out nuclear energy, increasing the use of renewable energy and cutting overall energy usage is impossible without a strong public role, he wrote:

“There is little economic incentive for the private companies to make these investments, and indeed the growing use of renewable electricity undermines the profitability of existing gas-fired power stations. As a result, municipalities and regions have to play a leading role, not only to meet the targets for renewable energy but also to secure sufficient capacity to protect against the effects of markets and the phasing-out of nuclear energy.” [page 12]

One example is the German city of Bergkamen (population about 50,000), which reversed its privatization of energy, water and other services. As a result of returning those to the public sector, the city now earns €3 million a year from the municipal companies set up to provide services, while reducing costs by as much as 30 percent.

### **Private versus public in the United States**

Municipal-owned utilities aren’t magic wands because they can be subject to the hostility of local business leaders. Cleveland’s city-owned power company, then known as MUNY, became the object of a political tug-of-war in the 1970s in which “market forces” were unleashed to detrimental effect. [Successful lobbying by the private energy corporation, CEI](#), that competed with MUNY caused the city government to neglect maintenance and investment in MUNY, leading to it having to buy power from CEI, which in turn provided inadequate connections that often led to outages.

Davita Silfen Glasberg, in her book *The Power of Collective Purse Strings: The Effects of Bank Hegemony on Corporations and the State*, argued that Cleveland’s default was the result of “control of the city’s critical capital flows by an organized banking community.” Legal maneuvering by CEI caused a city cash flow shortage because of what MUNY was forced to pay to CEI. In turn, Cleveland’s bond ratings were downgraded, rendering the city unable to sell bonds and intensifying its dependence on bank loans. As a result, Professor Glasberg wrote:

“The banking community, which had significant interests in CEI (including stock ownership, pension fund holdings, CEI deposits, voting rights on CEI stocks, loans, and interlocking directorates) refused to renew or renegotiate the city’s loans unless [Mayor Dennis] Kucinich agreed to sell MUNY to CEI. Such a sale ... would have solidified the private utility’s control of the city’s electricity business. ... For political reasons the financial

community had cut Cleveland off. Indeed, the coffers opened once again when the business and banking communities unseated Kucinich, and [George] Voinovich took office.” [pages 139-140]

As part of the deal, MUNY’s rates rose (dampening competition with CEI), the city laid off hundreds of workers and the wages of remaining city employees were cut — working people paid the price for corporate profit. Cleveland did withstand the pressure to sell its public utility. The utility, now known as Cleveland Public Power, provides low-cost electricity that [saved the city an estimated \\$195 million](#) between 1985 and 1995.

Absent such blatant interference, U.S. cities have often found that public utilities outperform privatized ones. In Atlanta, for example, the city signed a contract with Suez, which promised to reduce water and sewer costs. Instead, the web site *Water Remunicipalisation Tracker* reported, repairs were neglected, 400 jobs were lost and [sewer rates increased 12 percent a year](#). After four years, the contract was canceled and the services returned to the public sector.

## **Denmark’s embrace of Goldman Sachs**

The decision by Denmark’s social democratic government to sell a portion of the state-owned energy company flies in the face of considerable recent history, even without the added question of Goldman Sachs’ predatory behavior. The investment bank, which stands out even among its rapacious peers for its ability to extract money from an extraordinary assortment of human activity, is buying an 18 percent share, yet will be given a veto over strategic decisions, essentially handing it control.

In addition, according to the *Financial Times*, Goldman Sachs not only has the right to [sell its share back to the government if the deal doesn’t go its way](#), but 60 percent of its share is required to be sold back at a guaranteed profit — the purchase price plus 2.25 percent annual interest. And that’s not all — Goldman is using affiliates in tax havens to own its share, leading to much speculation that it intends, like many companies, to avoid paying taxes.

Danes are heavily opposed to this deal. But rather than consider popular anger, the chief executive officer of Dong Energy is instead worried that “[Denmark’s reputation as a destination for offshore investors](#)” may be “damaged.” The move is the latest in a [series of austerity measures](#) by Denmark’s social democratic government that have included restricting eligibility for child care benefits and study grants, and increasing the retirement age.

The sale to Goldman has also caused one of the three parties in the coalition government to leave in protest, resulting in a minority government that will require support from other parties in crucial future parliamentary votes. It has also reportedly caused a rise in the polls for the conservative opposition. Replicating a pattern seen across Europe and elsewhere, social democratic governments impose austerity, and in the absence of a vigorous organized Left alternative, voters continue to alternate between the major parties or blocs.

The trend toward public provision of services is an as yet rare example of common-sense resistance to dominant capitalist ideology. Enterprises owned by the public or by a collective workforce don’t need to extract huge profits to pay swollen executive salaries or payoffs to speculators — an example that can be followed in many more businesses. With enough organization, it will.

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