

Distinction between privatization of services and commodification of goods: the case of the water supply in Porto Alegre

Rafael Kruter FLORES*

* Postgraduate Program of Administration, Federal University of Rio Grande do Sul, Washington Luís, 855, Porto Alegre, Rio Grande do Sul, Brazil.
(E-mail: rkflores@ea.ufrgs.br)

Abstract

One of the main debates regarding urban water in the last years concerns the privatization of water and sewage services. The critique of the privatization of the services is usually associated with the critique of the commodification of the good. This paper makes a conceptual distinction between both processes, reflecting on the case of the city of Porto Alegre, Brazil. The research utilized the case study method, using basically secondary data. The institution that provides the services in this city is being considered a model of a public service by many authors. However, the historical analysis of the structuring of the water supply in Porto Alegre shows that there is a process of commodification of water even if the institution remains as a public service.

Keywords

Privatization; public services; common goods; social struggle; North/South

INTRODUCTION

Since at least 1977, when the United Nations organized the 'United Nations Water Conference' in Mar del Plata, Argentina, water has become one of the main issues in the international political agenda. In this context, the water basin participatory model created in France during the twentieth century became the panacea for the problems of scarcity and pollution faced by a world progressively more industrialized, with constantly growing cities.

The degradation of water and its consequent bad quality resulted in a discourse, formalized at the International Conference on Water and the Environment in Dublin, Ireland, in 1992, which states that water has an economic value. These principles were known as the Dublin Principles and began to guide the formulation of policies, becoming a conditionality of loans given by multilateral institutions like the World Bank and the Inter-American Development Bank. The principle of the water as an economic good authorized these multilateral institutions to argue in favor of privatization of inefficient public companies worldwide, but specially in the poorest countries (PETRELLA, 2002). Since then, in the neoliberal context which characterized the nineties, many countries, states and cities privatized their water services.

The resistance to the neoliberal agenda was successful in many countries. Different types of civil mobilizations emerged in many countries. In Latin America, services conceded to foreign private companies returned to the responsibility of the State as a consequence of social struggles, protests, plebiscites and many other forms of social participation. The civil war in Cochabamba, Bolivia, known as the 'Water war', became a symbol of another discourse that emerged in these resistance actions, the discourse of the water as a common good, instead of economic. In

this discourse, water services are the responsibility of public institutions, and cannot be privatized.

For its unquestionable importance, these facts are being analyzed by activists, researchers and scholars organized in social movements, NGOs, research groups, among others. However, two shortcomings have been noted in these analyses. First: the debate remains superficial when it focus only on the failures that result from the privatization of water and fails to consider deepest mechanism of the capitalist system that are on the origin of the privatizing process. (SANTOS, 2006, OLIVEIRA and LEWIS, 2004). Second is the attempt to find solutions to these problems through discursive struggles, awareness and diplomacy, advocating the promotion of policies and social contracts in the circuits of international power to ensure water as a human right. In other words, these authors/activists seek the solution by promoting more humanist social policies (BARLOW, 2009; PETRELLA, 2002). However, history has proved that these attempts are consistently failing: the initiatives of the meeting in Mar del Plata in 1977, the goals established in Rio de Janeiro in 1992, as well as in the Johannesburg Conference are systematically failing. The 'Millennium Goals' are moving on the same way.

Other areas of study focus the institutional mechanisms of neoliberal hegemony synthesized in the Dublin Principles, arguing that it is an environmentally sustainable and economically necessary approach. Those reviews, by staying in the same frame of reference used in the formulation of the Principles of Dublin - economic and institutional approaches - do not allow a critical and reflexive overview of the contradictory aspects of these policies.

The approach of Swyngedouw, Kaïka and Castro (2003, p. 134) capture the contradictory aspects of the water provision as a wider social phenomena. The authors defend a more comprehensive and integrated approach in which supply of water is integrated with health and sanitation policy, ecological considerations, socio-economic processes, and urban planning and governance systems. The increasing fragmentation of policy domains (partly as a result of commodification and privatization) makes this objective more remote than ever.

In this sense, the authors make an important distinction that, in our view, needs to be developed from an empirical and theoretical point of view, specially when we consider the fragmentation of the development of the 'water as a common good' discourse as part of what the authors named the fragmentation of policy domains. This distinction is stated by the authors as follows. "While commodification, in one hand, referes to turning water from a public good into a marketable commodity subject to principles governing a market economy (regardless of nature of the ownership of both water and the water companies), privatization referes to changing ownership of water infrastructure and/or to the private management of water services. (SWYNGEDOUW et al., 2003, p. 129)."

This paper develops this argument, reflecting on the case of the city of Porto Alegre, southern Brazil. Porto Alegre is internationally knowned as the city of the World Social Forum. The people of the state of Rio Grande do Sul, of which Porto Alegre is the capital, are characterized by their political consciousness, cultural identities and valorization of its own history, land and natural resources. Specifically regarding water services, the municipal institution called *Departamento Municipal de Água e Esgoto* (DMAE) has been historically another motif of proud to the inhabitants of Porto Alegre.

Since its foundation in 1963 until now, DMAE has alway been a public institution. Their technical procedures are national reference and the tap water in Porto Alegre is safe, despite all problems of pollution and cyanobacterium in the Guaíba Lake, the main source of water of the city.

During the neoliberal context of the nineties, many analysts and authors recognized DMAE as model of public service and a symbol in the social struggle against the privatization. The analysis that follows attempts to relativize these assertions, having the distinction made by Swyngedouw, Kaïka and Castro (2003) as a background. The main argument to be developed is that the structuring of the water supply in Porto Alegre, considering the loans of multilateral institutions

from the North, shows that there is a process of commodification of water even if the institution remains as a public property. In other words, we try to argue in favor of a more accurate analysis when critique is made on modes of appropriation of water. Privatization and commodification are not the same process, but both processes are part of the same system. Thus, in order to critique the system, it is necessary to understand exactly when and where privatization occurs; and when and where commodification takes place.

We propose contribute to develop the concept of the water as a common good. This concept lacks theoretical development and for this reason, it is oftenly confused and conceived as the same discourse of the 'water as an economic good', as for example in the approach of Barraqué (1995). For him, the French model has succeeded in overcoming the contradiction between public and private ownership by creating a new form of management based on the principle of use. Thus, the model brings a paradigm shift, because it attenuates the importance of the paradigm public/private and questions the traditional roles of the market economy through cooperation between supply and demand.

Thus, to move forward in the development of a conception of the water as a common good capable of overcoming its contradictions with the conception of water as an economic good, as stated in the Dublin Principles approach, it is necessary to develop theoretical references that considers water in all its aspects. Those range from the economic to the social, from the environmental to the political. In addition, these aspects cannot be treated separately one from another and from the most deep social structures of the capitalist system and its dynamics of appropriation. According to Swyngedouw (2005, p. 81), tactics of "accumulation by dispossession" have become pivotal strategies in contemporary global accumulation dynamics [...] in the context of the recent waves of privatization and de-collectivization of water – in particular, urban water – resources around the world.

The 'accumulation by dispossession' is a process explained by David Harvey, by which capital also expands by incorporating resources, peoples, activities, and lands that hitherto were managed, organized and produced under social relations other than capitalist ones (SWYNGEDOUW, 2005, p. 82). In this sense, this author affirms that 'we shall consider the radically contested and contestable nature of such strategies of dispossession', task that this paper aims to do.

MATERIAL & METHODS

The distinction between commodification and privatization can also be regarded as a contradiction between those processes. An understanding of the world contradictory structures and relationships can only be made by a consciousness that interprets the data of experience in their contradictory manifestations: "one must admit that contradictions have a foundation in the things themselves and that these are the starting point "(LEFEBVRE, 2009, p. 28).

If there are 'pros and con', 'yes and no', it is because the realities have not only multiple aspects, but changeable and contradictory facets. Thus, human thought, which fails to capture at once the real things, is forced to grope and walk through their own difficulties and contradictions until the shifting realities, unstable and real contradictions. (LEFEBVRE, 2009, p. 28)

Following the recommendations of Lefebvre (2009), this paper adopts a theoretical framework and a methodological approach that seeks to capture the contradictory nature of the social world. To operationalize this, we utilized a case study method, more specifically, an illustrative case. According to Siggelkow (2007), the illustrative case allows to make a conceptual contribution, using the empirical case as an illustration. A work with a case as an illustration must present the case after the theory and thus make analysis and comparisons with it. However, in this case, we present the case before the theory, in order to illustrate the case with theory, and not theory with the case.

The study was conducted also as an 'intrinsic case', in the typology of Stake (2005). An intrinsic case seeks a better understanding of a particular case. "The study is not undertaken primarily because the case represents other cases or because it addresses a particular problem, rather, because the case itself is of interest, in all its particulars" (STAKE, 2005, p. 445). The intrinsic interest of this case is the fact already mentioned that Porto Alegre's water service is considered a model of public service and a symbol in the struggle against privatization, and the contradictory fact that the structuration of water services in this city can be regarded as process of commoditization of water.

The data that underpin the arguments were obtained in secondary databases, divided in scientific publications (books and journal papers), articles in newspapers and magazines and institutional documents and other information available on the Internet. The primary data analyzed are official documents dating back to the historical moment of the creation of the DMAE, as the minutes and drafts of laws.

RESULTS AND DISCUSSION

The public water supply in Porto Alegre, from its earliest settlements in the mid-seventeenth century, had characteristics that coexisted at different times: the withdrawal of water directly from Guaíba Lake by the population; the construction of public sources that carried water from the Guaíba to the village; the creation of two private companies, which sold water directly using fountains; the activity of *pipeiros*, selling water door to door; and the construction of the Moinhos de Vento Plant in 1927. This station treated and stored water and distributed it to the city districts.

To build this plant, it was necessary US\$ 3.5 million at the time. The amount was loaned in 1928 by the U.S. Londeburg Thelmann & Co., bearing interest at 7.5% per year and payment period of 40 years. Franco (1998) identifies that moment as a revolution in the quality of water supplied to Porto Alegre. The new station allowed to supply important neighborhoods where lived the city's elite, which were previously only supplied with wells. At that time, hydrometers were first used and the users would be charged for excess of water consumed.

During the 40's and 50's, the city experienced a period of accelerated growth. However, the expansion of the water supply systems did not keep up with the growth of the city, its stations were working at full capacity and even with overload, damaging the equipment. In 1958, the shortcomings were evident.

In this context, and given the need to expand and qualify the services of water supply in the city, a working group composed by the Municipal Executive developed a project to transform the municipal authority into an autarchy and, at the same time, negotiate a loan with the Interamerican Development Bank (IDB). The documents of that time make clear that the autarchy was a conditionality to access the loan.

On December 15, 1961, the Act creating the autarchy was approved. The *Departamento Municipal de Água e Esgoto* (DMAE) was created. Negotiations with the IDB extended for another two years until the deal was closed. The IDB loan to the Municipality of Porto Alegre was approved on December 1963 and established the conditions that DMAE should follow to get the loan. Among these conditions, we highlight the following:

- take the necessary measures so that the rates of water and sanitation services financed with the loan proceeds would produce enough revenue to cover at least the costs of operating and maintaining these systems;
- in a period of twelve months, should have been in place all steps to establish an adequate system of administration and accounting;
- install hydrometers so that by 1967, 80% of water was to be measured;

- hire a high-level consultancy for the preparation of a reorganization plan in Porto Alegre, this advice should be approved by the IDB (BANCO INTERAMERICANO PARA EL DESAROLLO, 1963).

According to Costa (1981, p.73), three measures adopted in the two years subsequent to obtaining resources from the IDB symbolize the new era of supply in Porto Alegre.

The change in the charging method: it was first released as a tax on the assessed value of each property and now transformed in a charge proportional to the consumption (...); the cadastral survey of all consumers in the city, made in 1966 (...); and a Sewage Master Plan for Porto Alegre, in the same year.

The loan from the IDB was in line with the former creation of an autarchy, which further enhanced the control systems of water supply and management systems of the body, as conditions of the loan. As an autarchy, DMAE gained autonomy of operation, collection and investment. The institution has benefited from this condition and the fact that it serves the main urban agglomeration of the state of Rio Grande do Sul. According to the mechanism of cross-subsidy, receipts in places where there is urban concentration - and therefore more profitable - must be applied in places where there is little concentration, as rural areas - where the cost of bringing water is higher. In the case of DMAE, this does not happen, for almost all its operating area is urban. Therefore, their service is more profitable than, for example, the *Companhia Riograndense de Abastecimento* (CORSAN), which serves almost all the countryside of Rio Grande do Sul state.

When the first loans were contracted to re-design water services in Porto Alegre, first in 1928 and then in 1963, many measures were taken in order to generate revenue in the future. Water and its supply started to have, besides a utility function required by a booming city, an exchange function, by which water would be transformed into a mean of payment of loans. Besides the use-value, water started to also have an exchange-value. The use-values are the qualitative aspects of something, that make it useful for some purpose. "Use values become a reality only by use or consumption: they also constitute the substance of all wealth, whatever may be the social form of that wealth" (MARX, 1999, p. 1).

Besides the use-value, Marx examines the goods as exchange-values. Unlike the use-value which only appears in the exchange between different use-values, which varies depending on the use-value being exchanged, the place where the exchange takes place, time, needs etc.

Exchange value, at first sight, presents itself as a quantitative relation, as the proportion in which values in use of one sort are exchanged for those of another sort, a relation constantly changing with time and place. Hence exchange value appears to be something accidental and purely relative, and consequently an intrinsic value, i.e., an exchange value that is inseparably connected with, inherent in commodities, seems a contradiction in terms (MARX, 1993, p. 1).

Thus, water as exchange-value can only exist when its use-value is exchanged for another use-value (which could be any other good, through the intermediation of money or not). This is where the water takes the form of a commodity. "Whoever directly satisfies his wants with the product of his own labour, creates, indeed, use values, but not commodities. In order to produce the latter, he must not only produce use values, but use values for others, social use values" (MARX, 1993, p. 1). What makes something a commodity is the concretization of their ability to be exchanged for other goods.

This reflection allows us to interpret the history of public supply in Porto Alegre as a process of transforming water into a commodity. When local public agencies have taken loans and restructured its operations in order to obtain enough revenue to repay the loan, the water appeared not only as use-value - to those who receive water at home and make different uses of it -, but also as exchange-value - when the water is exchanged for money, which in turn will be replaced by capital and the interest in advance. The loan payment is made, in essence, with water: the money is only as a medium of exchange.

CONCLUSIONS

The wave of neoliberal policies and the privatization of water services in many countries of the South had originated, as a response, a wider social mobilization and the emergence of a new concept of water as a common good. As every social phenomena, this concept is not free of contradictions. In our view, the main contradiction to be overcome lies in the different ways in which water can be appropriated in current processes of accumulation by dispossession. In this sense, the case of water supply in Porto Alegre is very illustrative. The city has built a model of public water supply, and a symbol of the possibility of public services with quality and social control (MALTZ, 2007; VIERO, 2004), which somehow contributes to the struggle against the privatization of water services. At the same time, the very establishment of this public service was made through a process of commodification of water, which is a different way by which water can be appropriated.

The critique of appropriation of water has to consider most deep social structures of capitalist modes of production, circulation and consumption. The establishment of water supply services in the South has been made, in many cases, with foreign capital looking for profitability, which is a way of increasing private capital produced elsewhere. Thus, it is by itself a way of appropriation of values generated through water resources.

REFERENCES

- BANCO INTERAMERICANO PARA EL DESAROLLO (1963). Prestamo al departamento municipal de agua e esgotos.
- BARLOW, Maude (2009). *Água, pacto azul: a crise global da água e a batalha pelo controle da água potável no mundo*. São Paulo, MBooks do Brasil.
- COSTA, Telmo Cardoso (1981). *Histórico dos sistemas de água e esgotos da cidade de Porto Alegre – 1779 a 1981*. Porto Alegre: DMAE.
- FRANCO, Sérgio da Costa (1998). *Porto Alegre - Guia Histórico*. Porto Alegre. Editora da Universidade/UFRGS.
- LEFEBVRE, Henri (2009). *Marxismo*. Porto Alegre: L&PM.
- MARX, Karl (1993). *Capital*. Volume 1. Section 1 - The two factors of a commodity: use-value and value. Marx and Engels Internet Archive. Available in <http://www.marxists.org/archive/marx/index.htm>. Access in April, 2, 2011.
- MALTZ, Helio (2007). *Água de Porto Alegre: pública e para todos*. In: BALANYÁ, B. (et al.) *Por um modelo público de água*. São Paulo: Casa Amarela.
- OLIVEIRA, Oscar e LEWIS, Tom (2004). *Cochabamba – water war in Bolivia*. Cambridge: Southendpress.
- PETRELLA, Riccardo (2002). *O manifesto da água: argumentos para um contrato mundial*. Petrópolis: Vozes.
- SANTOS, Carlos (2006). *Aguas em movimiento: la resistencia a la privatizacion del agua em Uruguay*. Montevideo: Edicion de los autores.
- SIGGELKOW, N (2007). *Persuasion with case studies*. *Academy of Management Journal*, v. 50, nº 1, p. 20–24.
- STAKE, Robert (2005). *Qualitative case studies*. In: DENZIN, N. e LINCOLN, Y. *The sage handbook of qualitative research*. 3 ed. Thousand Oaks: Sage publications.
- SWYNGEDOUW, Eric. *Dispossessing H2O: The Contested Terrain of Water Privatization*. In: *Capitalism Nature Socialism*. V. 16. N. 1. March, 2005.
- SWYNGEDOUW, E., KAÍKA, M., CASTRO, E (2003). *Urban water: a political ecology perspective*. In: *Built environment*, v. 28, n. 2. P. 124-137.
- VIERO, Odete (2004). *Porto Alegre, participação popular: controle social e gestão pública de água e saneamento*. In: GROSSE, R., THIMMEL, S., TAKS, S. *Las canillas abiertas de America Latina*. Montevideo: Casa Bertold Brecht.

03-WWW-YES-2011-Flores-Paper-2011_04_04.doc