PLUNDER AND PROFIT

The IMF and World Bank continue to push privatization, in spite of its massive failures.

In September 1999, Bolivian officials signed a 40-year contract with a private company named Aguas del Tunari to take over the municipal water system of Cochabamba, the country's third largest city. The company, largely owned by U.S. construction giant Bechtel, was the sole bidder for the contract, which guaranteed 15 percent annual profit in inflation-indexed dollars.

With the encouragement of the International Monetary Fund (IMF) and the World Bank, since 1985 Bolivian governments have sold national public assets to foreign investors and opened their markets to global trade. Despite the promise of development by following the "Washington consensus" of economic liberalization, it remained the poorest country in Latin America. But World Bank officials still insisted that Bolivia privatize Cochabamba's water utility and that residents, no matter how poor, pay full cost of the service without subsidy.

Two months after Bechtel's subsidiary took over, it roughly tripled local water rates, telling the poor they could pay one-fourth of their income for water or have the spigot shut off. There were massive protests for several months until the contract was cancelled.

But a few months after signing the contract, Bechtel surreptitiously added new investors and reincorporated its subsidiary in the Netherlands. When it lost the contract, Bechtel sued Bolivia—under terms of a bilateral investment treaty between Bolivia and Netherlands—for damages of at least $25 million for loss of profits it might have made, even though it had invested less than $1 million. Last month, the Bolivian government argued in secret hearings before an investment tribunal affiliated with the World Bank that the treaty doesn't apply, partly because Dutch nationals never controlled Aguas del Tunari.

Cochabamba remains a celebrated battleground in the intensifying worldwide dispute over the privatization of public services, from water and electrical utilities to education, healthcare and pensions. Its ongoing legal struggle reflects the ways in which poor countries often are pressured to privatize a wide range of public assets and services, and then locked into failed policies by international trade agreements.

Free Market Faith

Rich countries—working through international institutions like the World Bank—rarely help poor countries modernize and strengthen public services. But they often push them to privatize and commercialize public services, a move that they themselves would never make. Leading the tide of globalization, international financial institutions are aggressively and undemocratically promoting an ideological agenda of privatization and commercialization.

"The IMF, the World Bank and the World Trade Organization care about dismantling the state," says Nancy Alexander, director of the Citizens' Network on Essential Services (CNES), a research and advocacy group. "They're faith-based organizations. They don't care who dismantles the state."

International financial institutions claim that such reforms help reduce poverty, but they often simply are promoting the interests of multinational corporations in water, energy, telecommunications and other industries. Multinational corporate investment in privatization peaked in the late '90s, and many firms have since pulled back in response to protests or financial difficulties. So the World Bank, IMF and related institutions are increasingly offering financial aid, subsidies and guarantees to private multinationals to induce them to privatize.

"In the end, it's not an argument about economics. That's not the bottom line," says Doug

By David Moberg

Hellinger, executive director of the Development Group on Alternative Policies, which is critical of the IMF and World Bank. "It's ideological, but it's also about giving access to companies on terrific terms. It's really about the IMF representing its northern countries and their corporations."

The World Bank theoretically acknowledges a role for the public sector, but in practice it has pushed privatization since the mid-'80s. This year's budget for water privatization, for example, is triple last year's, and over the past decade the portion of the bank's lending for water projects tied to privatization soared. In 2002 it adopted a strategy that emphasized development led by private corporations, and it works closely with the WTO to impose on poor countries the kinds of pro-corporate policies richer countries have the freedom to negotiate.

Indirect Pressure

When countries suffer from financial crises or crippling debt, the IMF and World Bank often insist on privatization of state-owned enterprises, utilities and social services as a condition for financial help. But sometimes, Alexander explains, they push privatization indirectly. For example, they typically require cuts in government budgets, public services and aid to localities. They press for decentralization of public services, dismantling of utilities into smaller units, assessment of market prices for services and elimination of cross-subsidies that may reduce costs for the poor. Financially squeezed by these policies, municipalities may be tempted to privatize the decentralized services. The multinationals then cherry pick the most profitable pieces serving more affluent urban areas, leaving the government responsible for poor and unprofitable rural areas or urban shantytowns.

While some public services in developing countries work well, others are deeply flawed. But as CNES economist Tim Kessler argues, the World Bank acts as if the only alternative is privatization, not improving public services with outside financial and technical aid and with greater citizen accountability. In any case, privatized utilities need strong public regulation, which is difficult and expensive to do well. Paradoxically, weak and corrupt governments, whose public services could most benefit from reform, are least able to regulate privatized systems. Often they sell public goods on the cheap to cronies and patrons, making privatization really "briberization," says former World Bank chief economist Joseph Stiglitz.

Management Matters

Advocates argue that privatization increases efficiency and investment, fosters competition, shrinks deficits and improves services. There are many instances, such as in Chile, where privatized public enterprises increased efficiency and improved service. But in developed countries public utilities generally are as efficient as or better than private.

In developing countries, there also are countless horror stories of price gouging, poor service, meager investment and discrimination against the poor from every continent and in every arena of privatization. For example, Suez, one of two multinationals controlling at least 70 percent of the world's private water contracts, recently lost or abandoned water operations in Argentina, Phillipines and Puerto Rico once hailed as model successes. A newly released study by a network of citizens groups that collaborated with the World Bank, "Structural Adjustment: The SAPRI Report," concluded that privatization did not accelerate growth and the form of ownership did not determine efficiency of services as much as management policy.

Despite the failures of privatization, the World Bank and IMF have not shifted their focus to strengthening and democratizing public services. Instead, they are increasing funding to subsidize, to commercially guarantee and to promote privatization (as head of an expert panel on water infrastructure sponsored by the World Bank and multinational water companies). Former IMF managing director Michel Camdessus who recommended last year that there should be more subsidies and guarantees for water privatizers and that the bank should deal more with state and local governments (which typically are less savvy in negotiating with giant multinationals than national governments).

At the WTO, the richer countries want to include more services under the General Agreement on Trade in Services (GATS), potentially opening historically public functions to competition that would benefit multinational service corporations and would indirectly privatize. Once a service is opened under GATS, countries cannot reverse course—for example, make healthcare an exclusively public service—without paying every country that claims it lost a trade opportunity. GATS rules also would severely restrict domestic regulation of service industries.

If the rich countries, along with the World Bank, IMF and WTO, persist in their current privatizing strategies, Cochabamba may turn out to have been an early skirmish in a much wider war. ■

Barrier to Peace

STORY BY CHARMAINE SEITZ · PHOTOS BY BLAIR SEITZ

Driving into the West Bank from Israel there are no exits to Palestinian villages. Every turnoff is blocked by towering rubble, deposited by Israeli military bulldozers after the outbreak of violence in September 2000. The intent was both security-minded and political: to contain and to force a compromise. Its effect was numbing: Palestinians were physically prohibited from witnessing the cumulative portrait of their shattered landscape.

Months before the second Intifada, then-Israeli Prime Minister Ehud Barak asked planners to draw a map for "unilateral separation" in case there was a breakdown in Palestinian-Israeli talks. But even then the plan's architects understood that implementation would escalate conflict.

Former Deputy Defense Minister Ephraim Sneh said building a physical barrier around Palestinian population centers—at that point, annexing 30 percent of the West Bank in the process—would not end attacks on Israelis but enflame conflict. "All the experts on international law told us that this would bring about a terrible response," Sneh said.

Now, four years later, Israel's barrier is one-third complete, and Palestinians have taken their opposition to the International Court of Justice in The Hague.

In the hands of Ariel Sharon's current right-wing government, Barak's plan for unilateral separation is realized in a series of barbed wire fences, ditches, patrol roads, electronic sensors, guard towers and con-