The Collapse of Neoliberal Privatisation*

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Thames Water, one of England's many regional water monopolies, infamously privatised by Margaret Thatcher in the 1980s and symbolising the dramatic turn in economic policy that neoliberalism implied, is finally collapsing. Unable to mobilise £500 million from shareholders who have milked the company over years, Kemble Water, the parent company of Thames Water, defaulted on debt service payments of £190 million that fell due in the first week of April 2024. Meanwhile, rotting infrastructure resulting from long years of underinvestment under private ownership is resulting in leakages that are egregiously polluting water sources with sewage. So much so that the captain of Oxford's boating team blamed stomach illness among team members because of too much "poo in the water" of the Thames for their defeat by Cambridge.

In the ideologically driven privatisation push after Thatcher's return to power, her government privatised in 1989 ten regional water authorities (RWAs), responsible for water supply, water quality, and sanitation throughout individual river basin areas. Till then water supply and sewerage services were considered to be one of the economic activities that were sites for "natural monopoly", because investment size and technological characteristics did not allow for competition between multiple private suppliers. Hence, they were seen as obvious candidates for government ownership. The prevailing understanding, backed by economic theory, was that allowing monopoly to be exercised by private owners would lead to profiteering at the expense of prices paid by and quality afforded to consumers.

Thatcher turned that understanding on its head, with dramatic implications for policy not only in England but across the world. Diverse arguments were used to justify privatisation. They included assertions that government ownership inevitably led to financial mismanagement; customer support had suffered in the absence of a thirst for profit; political constraints on reasonable pricing had resulted in underinvestment and adversely affected the quality of service; that government monopoly had undermined democracy; and that, in any case, it was not the business of government to be in business. What was concealed was that, in the case of the water and sewerage authorities, shortfalls in production and quality were partly a result of past government policy. Their ability to provide adequate services was undermined by a decision of the Thatcher government elected in 1979 to limit borrowing by the RWAs, which held back much-needed capital investments. As has been true of many instances of privatisation since, the public sector was wilfully run down to build a case for its hand over to private players.

Privatisation was not aimed at undermining monopoly. In fact, the Water Act of 1989 protected private monopolies, giving the new private owners exclusive concessions to provide water and sanitation services for a 25-year period. Moreover, to attract private investors the government sweetened the sale in a number of ways. While the new private owners of the water and sewerage companies paid a total of £7.6 billion for their acquisitions, the government wrote off as much as £5 billion of debt the RWAs then owed and provided an additional cash infusion totalling £1.5 billion, known as the ‘green dowry’. Private owners who paid a net of around £6 billion, began with a clean financial slate, with substantial freedom to re-price their services.

Among the RWAs, Thames was a major player. As part of the wholesale privatisation of all RWAs, Thames Water Authority had been acquired by German utilities major RWE, headquartered in Essen. After failing to meet service requirements and leakage reduction targets, RWE decided to wash its hands of the entity. It found in Kemble Water Holdings Ltd, a consortium led by the Australian financial services player, Macquarie Group, a buyer who was willing to pay it £8 billion.

It soon became clear that the new owners were looking at Thames Water as a financial investment that would provide shareholders quick and large returns. Three means seem to have been used to ensure this. The first was to hike user charges paid by customers, to try and enhance profits. The second was to limit the use of any surpluses for investment in renovation and modernisation. And third, to the extent that available profits were not adequate, was to borrow to pay off shareholders, accumulating large debts in the bargain. The UK’s National Audit Office estimated that in the first 15 years after privatisation, the average household bill for water and sewerage rose by 40 per cent in real terms, or after adjusting for economy-wide inflation. Meanwhile, investment was limited and infrastructure allowed to deteriorate, leading according to an analysis by The Times in leakage by the water companies of 2.4 billion litres of water a day and discharge of large quantities of raw sewage into rivers and seas. According to the Guardian, Thames Water, was planning to hike charges by £15 this April and was pushing to raise them by 40 per cent in the five years to 2030 to finance a promised £18.7 billion upgrade of its ageing infrastructure. The company was also lobbying for lower fines and penalties for breaches. But faced with criticism the regulator, Ofwat, is holding back on providing more concessions.

Meanwhile, the company has accumulated £14 billion of debt, servicing which eats up 28 per cent of its annual revenues according to one estimate. But that did not hold back payments till recently of large dividends to its shareholders, totalling £7 billion over the 32-year period 1990 to 2022. Macquarie ran the company for 11 years after acquiring it in late 2006. Over those years shareholders were paid £2.8 billion, while debt rose from £4.4 billion to £10.5 billion (in 2017 prices). Macquarie then divested its holdings. Thames Water shares are currently held by a range of financial players, including the Canadian pension fund OMERS, the Universities Superannuation Scheme, the Kuwait Investment Authority, and the China Investment Corporation among others.

Overburdened with debt, Thames Water had approached its shareholders for an infusion of an additional £750 to tide over its immediate crisis, with a first tranche of £500 million due immediately. But with Ofwat holding back on the demands for further concessions and price increases, shareholders deemed the company “uninvestible”. That precipitated the default which could potentially lead to lenders becoming shareholders. The problem is that the lenders include two Chinese entities the Bank of China and the Industrial and Commercial Bank of China, who would join the China Investment Corporation as shareholders. The UK government is committed to restricting Chinese ownership of critical infrastructure. In the event, the only real option is re-nationalisation with the government infusing equity capital to pay of the debt. As many had predicted, Thatcher's privatisation has paved the way for its own collapse.

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