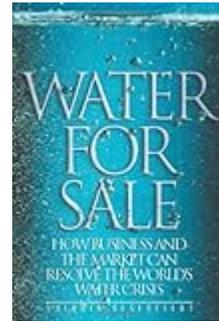




Fredrik Segerfeldt. *Water for Sale: How Business and the Market Can Resolve the World's Water Crisis.* Washington DC: Cato Institute, 2005. 160 pp. \$12.95 (paper), ISBN 978-1-930865-76-1.



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The Poor Can Only Benefit from the Private Provision of Water Supply

Fredrik Segerfeldt originally wrote *Water for Sale* in Swedish. The CATO Institute has published an English-language version. Anyone who works on water policy should read this book. Segerfeldt argues sensibly, with examples, statistics, and documentation. His arguments echo and reflect recurring themes (equity, poverty, development, capitalism, and corruption) in water policy, and this book will be useful (barring miracles in the water sector) for the next fifteen to twenty years. The book is short (118 pages plus 25 pages of notes and references) but complete. The prose is clear, with few redundancies, inconsistencies, or errors. The book's biggest strength is Segerfeldt's logical foundation: defend the poor. Its biggest weakness is the omission of the bigger picture: how does one do *anything* well when the government is corrupt?

Segerfeldt's brutally effective condemnation of water policy in the developing world is as dispassionate and rational as one can be when discussing how "every minute of every day, 22 people die because they cannot get enough safe water" (p. 8). Children suffer the most—

accounting for one-quarter of the twelve million annual deaths from water shortage. His main point—and a good one—is that the private provision of water by companies seeking profits can hardly make the poor worse off, since "ninety-seven percent of all water distribution in poor countries is managed by public suppliers, who are responsible for more than a billion people being without water" (p. 1). It is hard to believe that the world's poor are threatened by private water companies that have a market share of 3 percent!

Can we blame nature for water shortages? No, Segerfeldt states—the wettest place on earth (Cherrapunji, India) has water shortages due to poor water policies. Although shortages are strongly correlated with a lack of economic development, development is happening too slowly to save lives. Instead, Segerfeldt suggests improving the governance of water supply, and he recommends importing good governance via private enterprise. Private companies do not just have the advantage of outside cash. They have the advantages of management experience and specialization, competitive pres-

tures, and the profit motive. Public bureaucracies have none of these advantages. Every locality learns by doing (often repeating mistakes “learned” elsewhere), facing no competition, and catering to political whim. The worst problem is that public bureaucracies suffer no penalty when they deliver poor results. Bureaucratic rewards accrue to those who spend their budgets—not to those who serve more people. Political forces favor rich urbanites and big farmers, not poor slum dwellers and small farmers.

Further, Segerfeldt notes that water is too cheap. Because prices are low, demand exceeds supply and shortages result. Why are prices low? Subsidies of forty-five billion dollars per year mean that water prices cover, on average, 30 percent of the cost of water service, resulting in deferred maintenance (leaky pipes, poor quality) and small service areas. While the rich get piped water, the poor pay ten to eighty times more to get water from “pirate” vendors. (Pirate in the unregulated sense; they are providing a valuable service to grateful customers.)

What are the barriers to change? According to Segerfeldt, “Anti-privatization activists ... are driven by an ideologically inspired aversion to enterprise, coupled with fear on the part of vested interests of losing their privileges.” He points out the cost of such ideology—a failure to serve the supposed beneficiaries of their interest; in other words, “it would be not just a pity but quite outrageous if millions of people were to starve, fall ill, and die through water shortages brought about by the strident propaganda of vested interests and powerfully ideological movements with quite different ends in view” (pp. 4-5). The rich and middle classes also dislike privatization because they are likely to face higher water bills: first, because private companies want to collect their money; second, because private water companies are likely to expand service to truly poor customers who are going to use less water (thus making it hard for wealthier customers to claim that they cannot do with less); and third, because government policies designed for the “poor” are more likely to end up serving the *poor*.

Public sector unions want to protect their jobs, of course, but the worse perpetrators of the status quo are the politicians who use water utilities for selfish gain—hiring relatives and cronies, diverting cash flow, and contracting with “friendly” firms. (The mayor of Cochabamba, Bolivia, would not allow the city’s water supply to be privatized until a dam was included in the deal. Conveniently, his friends were in charge of building that dam. The infamous failure of the Cochabamba

privatization can be partially blamed on that dam.) Even more common than politicians-cum-thieves are politicians who fail to monitor public water managers. Where, after all, would fines for bad performance go, except from one pocket to the other?

What are his solutions? Segerfeldt points to private trade in water rights. After Chile “introduced private ownership of water in the 1980s ... water supply has grown faster than in any other country. Thirty years ago, only 27 percent of Chileans in rural areas and 63 percent of urban communities had steady access to safe water. Today’s figures are 94 and 99 percent, respectively—the highest for all the world’s medium-income countries” (p. 31). Even better, the incentives to sell conserved water increased agricultural efficiency and—through competition—lowered the price of water. Farmers did not suffer; despite the lack of major infrastructure investments, the shift to higher-value crops and greater efficiency resulted in 6 percent annual productivity growth between 1975 and 1990. Oh, and don’t forget those bureaucrats. The *lack* of “capricious pricing” and quotas on water use left farmers alone to do what they do best—making money from selling good food.

At the retail/urban level, Segerfeldt recommends that contracts for operation be awarded to companies through a competitive tender. He then gives several examples of privatizations that failed and succeeded, noting what went wrong and why. Disturbingly (for anti-privatization activists), it seems that many failures resulted from political failures and corruption—not greedy capitalists. His main recommendations to avoid failure are that contracts reflect local conditions, annual price increases be capped, and alternative providers be allowed to continue competing by selling water from trucks, etc. These commonsense ideas would deflect most concerns about privatization. (Remember that breach of contract can be remedied by re-municipalization!)

Further, Segerfeldt recommends that equity issues (“the poor will suffer with market prices”) be *directly* addressed through income supports or vouchers. Cheap water policies do not help the poor as much as wealthier people, especially when the poor lack piped water!

The main weakness of Segerfeldt’s argument is his inadequate discussion of private “price gouging.” He claims that businesses would not be able to raise prices (or lower quality) because customers would turn to other water sources, but his argument depends on high elasticities for demand and supply. Put differently, total revenue would only fall if people cut their use *faster* than prices rose,

partially by using less and partially by switching to suppliers who would step in from somewhere. Although I can see this happening when people cut back on luxury uses of water (e.g., lawns) or when supplies can come from trucks or groundwater, it is harder to see it happening for city dwellers who use water for drinking, cooking, and washing.[1] His second weakness is that, while Segerfeldt correctly identifies a huge difference between urban and agricultural water prices in California, he mistakenly says that the difference is due to subsidies. Most of the difference can be explained by unequal delivery costs; the remainder (perhaps 20-40 percent) is the result of agriculture having rights to water from higher-quality sources. (These differences would disappear if California had water markets, but we do not.) Finally, Segerfeldt sometimes relies on “chartjunk” to make his points. Figure 7.1 is scaled between 68 and 80 percent so that a 7 percent difference between private and public provision looks like a 60 percent difference. Edward Tufte would throw a fit.[2] Figure 3.1 suffers the same problem.

This book makes a strong case for privatization, providing both case studies and logical arguments in favor of private participation in the water sector. Those who favor privatization should read it to hone their understanding; those who do not should read it so they can understand the weaknesses in their position. Those who are agnostic on the question (like me) should read it to gain a deeper understanding of the issues in and nuances of privatization.

Notes

[1]. It is practically impossible for people in the developed world to avoid price increases, which is why the prices of public and private water providers are heavily regulated. Ironically, prices that are too low produce shortages

[2]. Edward Tufte, *The Visual Display of Quantitative Information* (Cheshire: Graphics Press, 1983).

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