

Discussion Guide

Paper on where free markets fail
and alternatives need to be
developed

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Mexico City, April 2003



Aims of the paper

- Contest the applicability of free market theory in water services provision in developing countries.
- Present a framework for developing an alternative.



Water Resource Management

Typical Problems

- Natural water scarcity
- Overuse and overexploitation leading to scarcity
- Pollution

Water Service Management

Typical Problems

- Failure of public utilities
- Leaks, illegal connections, weak billing in urban systems
- Lack of provision in rural areas

Statism

A state-centred solution:

- Centralised government or state regulation

A state-centred solution:

- Reform the state through the creation of autonomous public bodies that operate like a private business

Neoliberalism

A 'free-market' solution:

- Privatised ownership or provision of the resource

A 'free-market' solution:

- Full divestiture, private sector participation or various forms of contracting

Alternative Frames

An environmentalist alternative:

- Integrated water resources management

The proposed alternative:

- A sociological, context-sensitive approach using the theoretical underpinnings of institutional economics.

Genealogy: state vs. market

- Statism vs neoliberalism
- Adam Smith's propositions
- Crisis of natural rights
- Bentham's new liberalism
- Hayek's restatement
- Challenges to the Washington Consensus



Economic vs. Common Good

- Briscoe on the need to make value of water evident and observable; expanding the conception of costs; how to balance value and costs
- Barlow and Petrella on water as a common good; opposition to 'commodification'



Figure 2: Schematic representation of the definitions of use cost and opportunity cost (Briscoe, 1996)

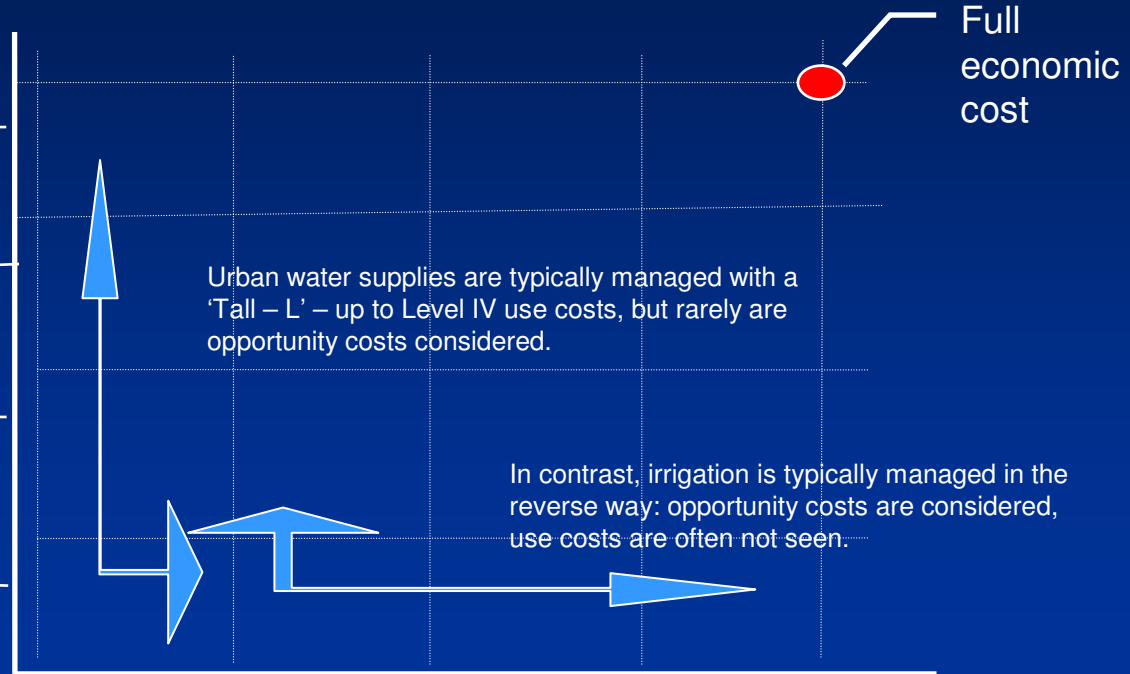
Use Cost

Level IV: Long run marginal cost of additional supplies

Level III: Average financial (capital + O&M) cost, with capital costs computed in replacement terms

Level II: Average financial (capital + O&M) cost, with capital valued in terms of historical costs

Level I: Operations and maintenance costs only



Opportunity Cost

A: Water can be used only by an individual

B: Water can be leased or sold to neighbors

C: Water can be leased or sold within an irrigation district

D: Water can be leased or sold to any urban or agricultural user

Water as a Common Good

- These are statements of principles made in reaction to the proposition of managing water as an economic good
- Strong emphasis on access to water as a human right.
- Conspiracy theory on the role of corporation and global institutions.



Why free market economics fail

- No rapid or free entry of competitors
- No effective competition
- Information & transaction costs are high
- Costs not yet fully understood
- Valuation tends to put rights aside
- Privatisation does not happen overnight



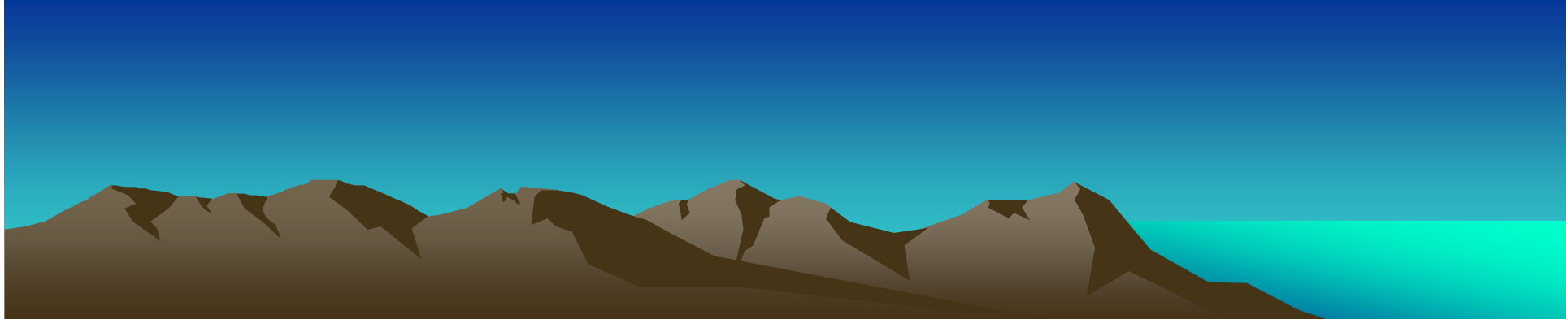
Poverty-sensitive instruments for the measurement of costs

1. Water expenditure measured as a percentage of income

Consumer	Water expenditure	Percentage of income
London family of four, with two income earners	US\$ 146.66 yearly to Thames Water Plc.	00:22%
Accra family of six, with one income earner	US\$ 156.95, paid to a neighbour with a connection to GWCL (utility).	22.40%

2. Measurement of substitution effects

3. Measurement of costs of not providing safe water and sanitation



An alternative framework

- Recovering the lost role of institutional economics
- Understanding and developing moral agreements
- Need for social embeddedness and importance of non-contractual issues



Transactions around the Gift



- A gift in theory is voluntary, disinterested and spontaneous.
- They are in fact obligatory and interested. There is an accompanying behaviour that is formal pretence and social deception, while the transaction itself is based on obligation and self-interest.
- The sociology around the gift shows the need for a shift in thinking from the rational individual and into institutions where transactions are the basic unit of analysis.

Conclusions

- Free market theory does not provide all the answers and may even block solutions to the challenge of the MDGs.
- The search for market-based, market-driven and market-like solutions for problems in the water services provision in poor countries is unsuitable for a number of reasons.
- However, a return to statism does not improve understanding, much less provide solutions either.
- A sociological, context-sensitive approach based on institutional economics holds much promise as an alternative to free market thinking.

