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"The Great Water Debate"

Wenonah Hauter's Response to David Zetland
Global Water Summit 2011
Berlin

The recent crash and burn of the global economy vividly demonstrated the flaws of over-reliance on market forces and flawed pricing models. Pricing water like a widget is inhumane, inappropriate and subjects the essential human need for water to the indifference of the marketplace.

It's poor people who suffer from full cost recovery. Zambia's a good example of the failure. Prices increased and investments fell. Investment in O&M fell from 83% in 1987 to 67% in 2005 and water leakage increased from 28% to 49%. Water rates increased two-fold to seven-fold. A fifth of urban users lost access to water—and in 12 years access to water declined from 72% to 57%.

The only long-term solution for achieving universal access to water is to make it government policy, to use tax dollars to finance water infrastructure, and to use cross-subsidies to make water access affordable. It's an appropriate, necessary, and common role for government. And the global justice movement believes it's worth fighting for.

Europe, the U.S. and Japan did not build public water and sewers on the backs of the poor through cost recovery. People were not forced to use the 19^{th} century version of a smart card to access drinking water. Our governments distributed the costs through taxes and cross-subsidies.

Providing access to water is an essential role for government. It prevents disease and is needed for public safety services like firefighting and hospitals. It is necessary for industry, agriculture and services that drive economic growth. Investment in infrastructure strengthens economic development, sustains growth and generates jobs.

As we sit here benefiting from the fruits of public investment in water infrastructure, it's distasteful to hear that the poor should use their meager earnings to access water.

One fifth of the world's population, 1.44 billion people, scrape by on $1.25 a day. Using 2011 World Bank figures, Food & Water Watch calculates that with full-cost pricing, a consumer would pay 10% of their income on 100 liters of water. This is double what the experts in development agencies tell us the poor can pay. What should they do without food, education for their children, housing, or medical care? This is unconscionable.

And even the research arm of the World Bank agrees. A Bank analysis found significant full-cost pricing would place unsustainable burdens on majority of households in the developing world. Who could not pay the full cost of water?

- About 70 percent of households in India and low-income African countries
- Half of the population in Bolivia, Honduras, Nicaragua and Paraguay
- One-fifth of households in Latin America could not afford full cost pricing[i]

The Bank estimates that low-income countries would have to impose a tenfold increase in water prices to achieve full-cost pricing.[ii] Raising water rates this steeply would push as many as 7 percent more people into poverty.[iii]

And just to set the record straight, Uganda's national water company, which has been presented at this meeting as proof that pricing works, does not really have full-cost pricing. There are subsidies for capital costs from the national government and international aid agencies. There are considerable cross-subsidies from inter-municipal and commercial and industrial users to residential users. But for all that, Ugandans still only receive an average of 20 liters of water a day, a fifth of what the WHO deems necessary. It would cost more than 5% of income for more than half of the population if they used more. And only 6% of citizens have access to sewage services because it is unachievable with full-cost pricing.

The real solution for financing water and providing water to the poor is to ensure that sufficient taxes are raised to finance infrastructure investment.

It's encouraging that the Tobin Tax model is getting support in the EU parliament. In March the parliament voted in favor of a resolution to levy a tax on financial transactions by banks based in the EU--raising as much as two billion Euros. The vote was 529 in favor and 127 against.

It's time for the international finance institutions to stop dithering around about privatization and pricing schemes and create an honest development strategy. They should strongly advocate that some of the wealth from extracting resources from the developing world be used to benefit its citizens. Mining companies across Africa are failing to pay royalties and are avoiding billions of dollars in taxes.

The IMF could stop forcing countries to structure their economies in a way that allows foreign corporations not to pay taxes. They should begin by stopping tax avoidance, corporate tax subsidies, secret contracts, speculation and "creative" accounting. They should be working to develop and enforce an international accounting standard that requires reporting on royalties, profits and taxes. If even a fraction of this money was collected, we could provide basic services for everyone.

And for that matter, we need to have the same discussion in the U.S., where corporate tax rates are a fraction of what they were, where the wealthiest companies like GE and Exxon escape paying federal taxes. Half of all U.S. corporations do not pay income taxes at all. We have plenty of money to spend trillions on war, but not on infrastructure in the U.S., much less to contribute to providing basic services for the developing world.

As far as needing a pricing regime to deal with water scarcity, if we really wanted to address the problem we would begin by making public investments in fixing leaky pipes. For example, the U.S. has more than a quarter million burst pipes a year—with 1.2 trillion gallons wasted or about a fifth of municipal water system use. Addressing this problem would also help stimulate the economy. Every billion dollars spent on fixing water infrastructure in the U.S. creates 27,000 jobs—many of which would be in the private sector providing equipment and materials, fulfilling short-term construction needs.

Pricing focused on household water usage can't significantly reduce scarcity. Yet, when you read the literature on pricing, three quarters of it only looks at residential use, even though household water use is less than 10% of consumption. Furthermore, for essential water use in the home, consumption is nearly unresponsive to price. Almost every study has found modest consumer response to rising water prices. Even during droughts, with public education campaigns on saving water, the consumption response to steep price hikes was limited.

On the other hand, the U.S. EPA estimates industrial users are twice as price responsive as residential users. An American Water Works Association study found that a 10% rate hike reduced industrial consumption by a third.

If we really want to talk about making the changes necessary to stop wasting water we will focus on industrial waste and pollution of water. For instance, the Cheney loophole to the Safe Drinking Water Act that is allowing the natural gas industry to waste and pollute millions of gallons of water on shale gas exploration in the U.S.

And increasing block rates is no solution either. Charging per-household fees for capital and infrastructure is regressive. A World Bank review of four increasing block rate cases found that they all excluded more than half of the poor households from receiving any benefit.

Block rates are also intrusive, incomprehensible and ineffective. Requiring that families disclose the number of people in a residence each month seems a bit Stalinist for a libertarian like David Zetland to suggest. Households of varying sizes and ages have different thresholds for essential water usage. And if the system has a subsidy to protect lower-income households, the monthly water bill would have to be part census questionnaire and part tax return. Talk about bureaucracy and violating individual rights. It is difficult, if not impossible, for consumers to know which twist of the tap will transition cheap water into more expensive blocks. You can't use price to influence behavior if you don't know when the price changes.

Pricing mechanisms are costly, administratively complex, and often fail to target lower-income consumers for subsidies. When determining water-pricing policies, public managers must balance a range of social and economic objectives, including the management of water demand, the recovery of system costs and the establishment of equitable rates to avoid overburdening lower-income households. Public agencies are more transparent and elected officials can be held accountable. Setting up the first block rate to account for these billing goals and account for the essential use without draconian monitoring of each trip to the bathroom is unrealistic and unfair.

David has also suggested All-in Auctions, which for me don't pass the laugh test. Auctions require referees to ensure that they are not manipulated or distorted, with investors unfairly cornering markets, driving up prices, artificially pushing up prices, speculating, and capitalizing on insider information. All of these problems with exchanges have occurred, even in regulated exchanges. Let's not forget those imaginary paper derivatives.

If there were auctions, which I don't think there will be, it would require a radical redistribution of water rights. If we were to do this, rather than auctioning them off, we should move all water into the public commons. This would be fairer and more reflective of the true societal and environmental value of water.

In conclusion, full-cost pricing is a bankrupt idea that is losing ground. The global water justice movement is fighting around the world for the human right to water. Our recent victory at the UN is the result of a large and powerful movement working together from every continent, successfully challenging the economic forces that believe privatization and commodification of water are the answer. We are committed to organizing and growing the political movement to ensure that everyone has access to water.

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[i] Foster, Vivien and Tito Yepes. The World Bank. "Is cost recovery a feasible objective for water and electricity? The Latin American experience." (WPS3943). June 2006 at 2.
[ii] Foster, Vivien and Tito Yepes. The World Bank. "Is cost recovery a feasible objective for water and electricity? The Latin American experience." (WPS3943). June 2006 at 21 to 22.

[iii] Foster, Vivien and Tito Yepes. The World Bank. “Is cost recovery a feasible objective for water and electricity? The Latin American experience.” (WPS3943). June 2006 at 21 to 22.