

# A differentiated picture of the “public” and the “private”:

## An example of the water sector

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### 1 Introduction

Economics, especially the branch of public economics and public finance, offers a range of concepts to classify goods and services in terms of the responsibilities and potentials of the public, autonomous, and private sector. For instance, Pigou’s external effects show that state intervention by means of taxes (or subsidies) increases efficiency since prices do not mirror the true economic costs and benefits of production or consumption. Another prominent example is, of course, Samuelson’s distinction of public and private goods, and Musgrave’s additions in terms of common-pool resources and toll goods.

However, these basic normative concepts which call for state intervention and state activities in terms of regulation, provision, or financing non-market goods and services, are rarely to be taken at face value when it comes to concrete policy design. The core question therefore seems to be how the theoretical foundations may be ‘translated’ to an operational concept which shows in which policy fields the government may intervene, and in which way and to what extent state intervention is substantiated. Figure 1 depicts a basic table of classifications which may be used as an analytical framework to clarify the different roles and options of the public sector.

A possible operational concept may lie in the description and classification of concrete goods and services provided by an infrastructure. The regulation and responsibility for the provision of public, non-market goods and services, and infrastructure, may certainly build the basis of state intervention, the concrete goods and services may incorporate a different extent to which they can be considered ‘public’ or ‘private’. These different extents may therefore

|            | Description (positive)<br>Who are and were the actors? |               |        | Justification (normative)<br>Why should the state intervene? |          |            |
|------------|--|---------------|--------|--|----------|------------|
|            | State  | Civil Society | Market | Equality   | Morality | Efficiency |
| Provision  |  |               |        |  |          |            |
| Funding    |  |               |        |  |          |            |
| Regulation |  |               |        |  |          |            |

**Table 1:** Classification of different positive and normative approaches to state activities

Source: Unger et al. (2017, 14).

be classified or measured by a degree of publicness leading to indicators informing policy makers how strong the involvement of the state should (or might) be.

In order to describe a good or service accordingly, the degree of publicness has to be discussed along concrete attributes (characteristics) of the infrastructure in question. For instance, it can be reasoned that water provision is generally a public task. Theoretical arguments include public goods and external effects, scale and scope effects producing a natural monopoly, water as an essential good, and access to water as a basic human right. However, even if the basic provision of a good or service is arguably a public task, the state (government) does not always provide or care for each and every step in the production of a service. With respect to water, figure 2 presents an overview of the different dimensions (elements) of managing water infrastructures (water provision). For instance, the public may be involved in all steps of the production from owning the assets, deciding on investment plans, and operational (day-to-day) management over the whole marketing chain.

|                               | 63.5%  |                        |  |                       |  | 20.5%  |                     |                         | 16%  |                                       |
|-------------------------------|--|------------------------|--|-----------------------|--|--|---------------------|-------------------------|--|---------------------------------------|
|                               | Government Department  | Public Enterprise (PE) | PE & Corporatized & Commercial                                   | PE & Service Contract | PE & Management Contract   | Leasing Contract   | Concession Contract | Built, Operate Transfer | Private Ownership & Operation                                    | Community Self-help Buyer Integration |
| Asset Ownership               | Public   | Public                 | Public   | Public                | Public   | Public   | Public              | Public                  | Public   | Private/Common                        |
| Investment Planning           | Public   | Public                 | Public   | Public                | Public   | Public   | Public              | Public/Private          | Public/Private   | Public/Private                        |
| Regulation                    | Parent Ministry, Economic, Quality, Environment Regulators, NGOs |                        | Parent Ministry, Economic, Quality, Environment Regulators, NGOs |                       | Parent Ministry, Economic, Quality, Environment Regulators, NGOs | Parent Ministry, Economic, Quality, Environment Regulators, NGOs |                     |                         | Parent Ministry, Economic, Quality, Environment Regulators, NGOs |                                       |
| Financing Fixed Assets        | Public   | Public                 | Public   | Public                | Public   | Public   | Private             | Private                 | Private  | Private/Common                        |
| Working Capital               | Public   | Public                 | Public (Revenues)  | Public (Revenues)     | Public (Revenues)  | Private  | Private             | Private                 | Private  | Private/Common                        |
| Operations & Maintenance      | Public   | Public                 | Public   | Private               | Private  | Private  | Private             | Private                 | Private  | Private/Common                        |
| Managerial Authority          | Public   | Public                 | Public   | Public                | Private  | Private  | Private             | Private                 | Private  | Private/Common                        |
| Bearer of Commercial Risk     | Public   | Public                 | Public   | Public                | Public   | Private  | Private             | Private                 | Private  | Private                               |
| Basis of Private Compensation | n.a.   | n.a.                   | n.a.   | Fixed Fees            | Incentive Contract   | Incentive Contract   | Incentive Contract  | Incentive Contract      | Incentive Contract   | Incentive Contract                    |
| Typical Duration              | No limit   | No limit               | No limit   | Less than 5 years     | Less than 5 years  | Less than 15 years   | Less than 30 years  | Between 25 and 30 years | No limit   | No limit                              |

**Figure 1:** Dimensions of management of water infrastructure

Source: Boscheck (2002).

However, the public might involve a range of external (private) contractors to outsource different tasks; one prominent example is operational management in terms of maintaining the infrastructure, operating separate units, or administrating invoicing. In any case, the public sector (government) still has the responsibility that a working and operational system is in place. Figure 2 also includes an assessment of the importance of management models in the water sector. About two thirds of European water provision is done in the public sector (at least, by public enterprises). About 20% belong to the broad category of public-private partnerships (PPP), and around 15% may be considered 'private'. Even with the last one, the government is responsible for granting equal access, quality control, and limiting prices and profits by a regulating authority.

## 2 Water-related goods and services

Regarding regulation, provision and funding of tasks, the water sector may be analyzed like other public policy fields. However, for the concrete design of a management (governance) system, a degree of "publicness" might help in finding answers to the question how far private involvement may extend.

Therefore, it might be fruitful to consider the services related and provided by a functioning (fully operational) water provision infrastructure:

### Consumption

Water is certainly a consumer good used for drinking and household purposes; usually, one would assume that consumer goods are paid for and traded on markets. However, from the perspective of public or private management, the state intervention (or provision) still can be argued on a range policy goals: Water is strongly connected with efficiency aspects such as external effects and natural monopolies (network industry), and distribution goals in terms of fair prices and affordability of basic needs.

### Health

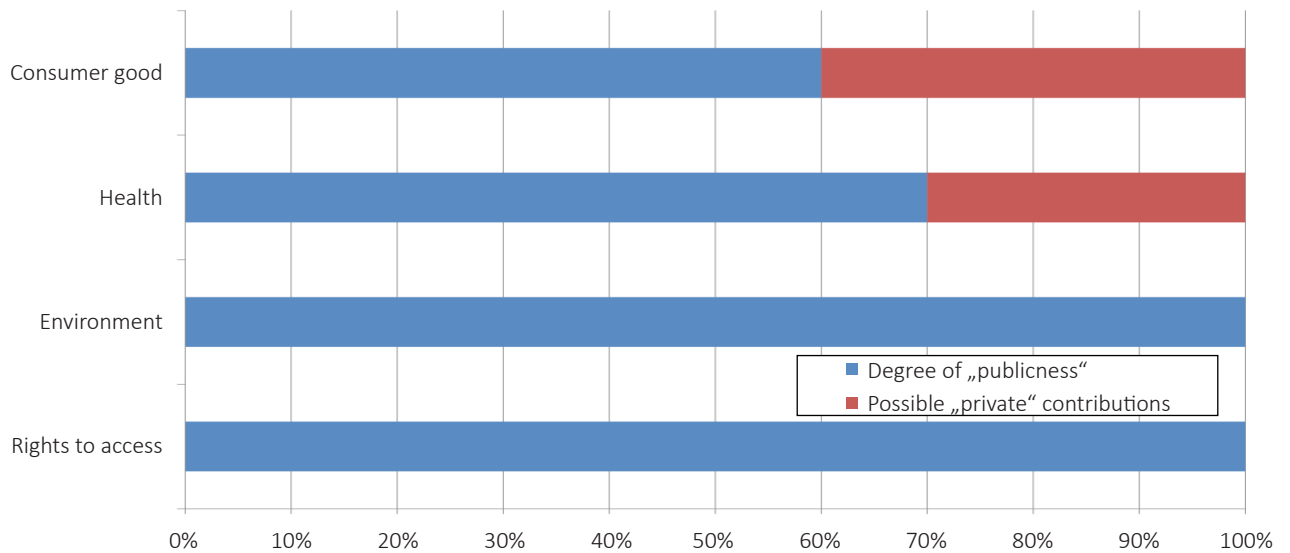
From an individual point of view, clean and fresh water is paramount to securing personal health; however, the government has a strong interest in public health by controlling water quality, providing standards; in addition, diseases should be prevented, and the costs to social security systems should be limited.

### Environment

With respect to the environment, the conservation of natural resources, and the planning of infrastructure and waste water treatment is an important public task.

### Rights to access

Finally, the market may not be able to provide or secure the basic human right to access to clean water which should not depend on the individual ability to pay.



**Figure 2:** Degree of “publicness” in securing water infrastructure and providing water-related services

Source: Own draft.

Considering these selected characteristics of public services, figure 3 presents a tentative sketch of a possible “degree of publicness” in order to discuss how important private decisions in water provision and infrastructures should be. The “private” part may consist of financial contributions, private planning or involvement of companies in producing the respective services.

If we consider water only as a consumer good, private decisions may be prominent besides public (planning) decisions to build, operate and maintain the drinking water infrastructure. With respect to health issues, private decisions may still hold a strong position since keeping up a good personal health is both in the very private, but also in the public interest.

For the two final categories, environmental issues and the right to access to clean water, the responsibility for providing these “services” lie entirely in the public sector. Private companies, depending on sales for cost recovery and earning profits, are not able to provide free access to all citizens, or to care for the environment given the manifold free-rider problems. Public involvement and planning is certainly needed.

### 3 Policy conclusions

The short discussion of water-related services and the responsibility of the public sector has shown that planning, public provision, and funding are still the main arguments

in debating the “private” and the “public” in the water sector. However, the degree of “publicness” has pointed to the need for a differentiated picture with respect to policies designing a water provision system. The following conclusions may be drawn:

Regardless of the neo-liberal turn in public policies, the basic economic arguments concerning the differentiation between public and private tasks still hold. For instance, public goods, external effects and natural monopolies have to be considered in terms of economic efficiency without having to rely on ideologies.

Regardless of a more private or more public system of provision, the government on the one hand is still responsible for providing clean and accessible water. On the other hand, a firm regulatory framework is needed for both private and public provision. Such frameworks may include quality and access parameters, prices and profits.

Even in the public water provision infrastructure, some tasks may be outsourced to private companies, such as construction work, operation of separate units, or administrative tasks such as invoicing.

However, one should not forget that the transformation of a functioning public system, such as the one in Austria, which is certainly efficient, effective and affordable, into one with more private involvement, may also be connected to substantial transaction costs of monitoring and evaluating private performance, and of designing optional contracts to fulfill the diverse public interests.

## References

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