

Categorical errors on water renationalisation

Dr Emanuele Lobina
Principal Lecturer, PSIRU
Business Faculty, University of Greenwich
e.lobina@gre.ac.uk

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This PSIRU Brief discusses some of the categorical errors mainstream economists make in predicting the outcome of water renationalisation. It argues that these errors are due to the misrepresentation of the ethos and motivation of the public and private sectors.

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The Public Services International Research Unit (PSIRU) investigates the impact of privatisation and liberalisation on public services, with a specific focus on water, energy, waste management, health and social care sectors. Other research topics include the function and structure of public services, the strategies of multinational companies and influence of international finance institutions on public services. PSIRU is based in the Business Faculty, University of Greenwich, London, UK. Researchers: Prof. Steve Thomas, Dr. Jane Lethbridge (Director), Dr. Emanuele Lobina, Prof. David Hall, Dr. Jeff Powell, Sandra Van Niekerk, Dr. Yuliya Yurchenko

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Chris Piles and Gill Plimmer's article ("[Nationalisation returns to centre of political debate](#)", *Financial Times*, 17 May) offers a vivid illustration of the categorical errors mainstream economists make in comparing the merits of public and private water utilities. First, assuming that undesirable redistribution is the exclusive preserve of the public sector is mistaken because private water companies use dividend payments as a means of regressive redistribution, extracting rent from the many in favour of the few. From 2007 to 2016, the nine regional water and sewerage companies in England have paid over [£18 billion in shareholder dividends](#), producing an upward pressure on pricing and causing an alarming [increase in water poverty](#). While typical of water privatisation, this practice could be avoided under public ownership.

A second categorical error is to predict that in the event of renationalisation progressive redistribution would necessarily lead to inefficiency. This is an error because it overlooks a fundamental difference in the motivation of the private and public sector under monopoly. Unlike private companies, public enterprises are not subject to the profit maximisation imperative. This opens up the possibility of [different efficiency outcomes](#) under public ownership and means that the history of nationalisation is not condemned to repeating itself. Indeed, the 2010 return to public management in Paris, France has allowed for an [8% cut in water tariffs](#) (compared to a 260% increase in rates under private management from 1985 to 2008) and a series of interventions in favour of vulnerable consumers and the environment, with no deterioration in service quality, investment levels or the financial health of the new public enterprise. This was made possible by the political resolve of a [new municipal administration](#), public participation in corporate decision making, and the cost savings obtained by [ending dividend payments](#).

It is important to avoid misrepresenting the ethos and motivation of the public and private sectors. When these categorical errors are corrected, the choice between water privatisation and renationalisation appears for what it really is: a choice between the certainty of private profiteering and the possibility of a better future for water services under public ownership.