

Foreword

For decades now I have been arguing that the poor are not the problem but a big part of the solution. The poor have assets—houses, land, livestock, and businesses. Tragically, those assets remain dead capital. Hostile, discriminatory, and costly legal systems throughout the developing and post-Soviet world have excluded the poor—four billion of the world’s six billion people—from the very legal tools that would allow them to leverage their assets: forms of organizing their enterprises that would allow them to divide labor and increase productivity, identity devices that would give them access to markets outside the confines of their families and acquaintances, and legal property rights that allow their assets to be given different economic functions so as to capture the highest economic value in the market.

Legal property is not simply about ownership; it is a basic right that gives people access to the courts, to banks, to a way of settling disputes without violence; property rights not only increase access to credit and capital formation, they provide individual accountability, facilitate enforcement, improve governance, reduce corruption, fight terrorism; legal property creates incentives for investment, making it more profitable for the private sector to provide roads, electricity, and water to poor areas, develop cheap housing, and set up information systems that assist the poor. In short, any government serious about grappling with one of the world’s most persistent and destabilizing problems—widespread, desperate poverty—must give all its citizens easy access to legal property.

This important book shows that extending legal property rights to poor people will also help solve another of the 21st Century’s most pressing problems: water scarcity. Ominous signs are already staring us in the face. All the countries of Central Asia, the Middle East, and North Africa are facing water deficits. Much of urban India does not have 24-hour water supplies; half of China’s 600 cities faced water shortages throughout the 1990’s.

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For most Americans, it is unimaginable that the great Mississippi River would one day begin to dry up and not reach the ocean. Yet between 1974 and 2000, China's Yellow River — 556 kilometers shorter than the Mississippi — ran dry 18 times. In 1998, the Yellow River failed to reach its ocean mouth for more than 250 days. With 1.3 billion people to feed, such water shortages are not just a major agricultural problem but a serious threat to China's economic and political stability.

Scarce water means expensive water. Rich countries, such as all of the oil-producing Middle Eastern states where aquifers are being pumped dry, will be able to cope, at least in the short term. For poor countries in Africa and Latin America which are already hard-pressed to develop their economies and safeguard their toddler democracies, water scarcity threatens not just the health of their people and the environment, but peace itself. The poor are already angry that the economic benefits of the market reforms of the past 16 years have not trickled down their way. What will they do when the price of water — and food — increases because of water shortages?

The successful nations of the world, led by the U.S., are quick to sing the praises of “market forces” — while ignoring the fact that four billion people in the world have been shut out of the market. The market is not the privilege of the rich. It is the fundamental thread in the social fabric of any society. Bad laws and inefficient bureaucracies, however, impose high transaction costs that preclude ordinary people from accessing the basic institutions that would empower them as full members of a market economy. Shut out of the legal economy, the poor create their own, extralegal economy and their own rules and regulations to make it work.

These local, grassroots practices have been discovered and documented by my colleagues at the Institute of Liberty and Democracy in Lima, Peru, through our projects in the underground economies of Latin America, Asia, the Middle East, and Africa, where majority of people are poor and operate outside the law.

In Tanzania, for example, we recently found that 98 percent of the businesses and 89 percent of the property are held extra-legally

– an estimated \$29 billion worth of dead capital in a country with a per capita GDP of \$210. But the ILD also found that to make a living and protect their assets, ordinary Tanzanians had created their own property rights, documents, registries, identification systems, business associations, wills, transparent and standardized accounting practices; they have invented ways to divide labor, build management, create collateral, and trace liability. In short, Tanzania already has in place the building blocks for a modern economy. The challenge, as it is throughout the developing world, is to integrate the people’s law into a modern, inclusive economic system under one rule of law that gives everyone a stake in the market.

And then step back and watch the people work and innovate. In this book, a group of highly regarded experts argue impressively and illustrate in many different ways that if poor entrepreneurs are allowed to flourish unhindered by bureaucratic intervention and fueled by better laws, they will come up with ways of providing and conserving water.

Chapters 4 and 5, for example, discuss the successes of “informal” and “illegal” water markets in India in providing water both in shantytowns and rural areas. Chapter 6 offers the leaders of China a way out of those dry riverbeds, but only by means of bottom-up solutions rooted in local property rights and water user associations. *The Water Revolution’s* other authors argue that well-intentioned government efforts to protect water supplies perpetuate artificial scarcity and often result in wasting water; private, market oriented solutions are often more innovative and productive.

The policy implications are as clear as a glass of sparkling clean water: Instead of generating legal obstacles that keep the poor on the outside looking in, nations must legally empower the poor so that they can pull themselves out of poverty – and, as the essays in *The Water Revolution* argue so forcefully, they must explore where it makes sense to use market solutions to address the growing problem of water scarcity all around the world.

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