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## How to Stop Squandering Water? Raise Its Price

By Robert N. Stavins

**F**OR the most part, people have complied with the mandatory restrictions on water use in the drought-stricken East. Residents of five states have been prohibited from activities like watering lawns, and businesses were told to prepare emergency plans to cut their use.

Eventually, however, this drought will pass, like others before it. And when it does, we'll return to business as usual, treating water as if it were not a scarce resource. Water conservation efforts will again be a thing of the past, until the next drought. Isn't there a better way?

The simple answer is yes — if we are willing to treat water as the scarce and valuable resource that it is and to price it accordingly.

### Correcting an incongruity Adam Smith saw in 1776.

In 1776, Adam Smith described the apparent paradox that water is vital to human existence but is sold for a pittance. Two hundred years later, I can refill an eight-ounce glass with tap water 2,500 times for less than the cost of a can of soda. Under these

conditions, it's hardly surprising that we have so little incentive to conserve.

Forty years of studies have demonstrated that water demand is responsive to price changes, both in the short term, as individuals and companies respond by making do with less, and in the long term, as they turn to more efficient devices in the home and workplace. For example, when Boulder, Colo., moved from unmetered to metered systems, water use per person dropped by 40 percent and stayed there.

Our water is not only underpriced, it's also inappropriately priced. A 1998 survey by the American Water Works Association indicates that 39 of the 60,000 public water systems in the United States charge uniform rates — meaning that consumers pay the same rate per gallon no matter how much they use each month.

Thirty-three percent go so far as to encourage waste by offering volume discounts. And even among the 22 percent of utilities that charge higher rates for those who use more, prices are typically set well below

### We're encouraged to waste our most vital resource.

the social costs of the water supplies.

Although water scarcity typically develops gradually during seasons of low rainfall and low accumulations of snow, pronounced droughts are usually felt in the summer

months, when demand is greatest. It would make economic sense to charge more at these times, but less than 2 percent of utilities practice seasonal pricing.

And virtually none have adopted systems that would allow water rates to rise automatically as reservoir levels fell. Such a mechanism would send signals to businesses and consumers well in advance of an emergency, just as our price system does for oil, natural gas and other resources (so long as the Government doesn't get in the way with artificial price ceilings).

A reasonable objection to jacking up water prices is that doing so would hurt the poor. But we can follow the example of electric utilities that subsidize the first kilowatt-hours of electricity use with very low "life-line rates."

Indeed, the first increment of water use could be free. What matters

is that the right disincentives are in place for consuming higher amounts.

Efficient water use will take place only when the price reflects the additional cost of making that water available. Now is the time to introduce progressive pricing. □

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