

# Water Markets Are the Answer

by Charles Oliver

**T**he rains spun off by Hurricane Lili and Tropical Storm Isidore brought welcome relief from drought for much of the Southeast. But the respite may be temporary. While the drought may end, the southeast's water problems have just begun.

The population of the United States as a whole grew 13.1 percent in the 1990s. But that of the southeast—Florida, Georgia, Tennessee, North Carolina, and South Carolina—jumped an average of 20.6 percent. Water use in the region has more than doubled since 1970. Population and water use will continue to climb over the foreseeable future, straining resources.

Politicians keep looking for a plan that will satisfy all water users. But instead of a top-down solution, policymakers should be looking for one that works from the bottom up. Instead of one grand plan, we should seek a way for each home, business, and farm to make the best use of its water. That will involve a more market-oriented approach to the region's problems.

For now, authorities are trying to cut water use through regulation. Georgia, for instance, now allows people with even-numbered addresses to use water outdoors only on even-numbered days and those with odd-numbered addresses to do so only on odd-numbered days.

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Governments threaten to pass even more regulations to hold use down. And some experts say these rules will have to last beyond the drought for the region to deal with the strain a growing population will put on water supplies.

But why do we need government to tell us to conserve water? Bureaucrats don't have to tell us to conserve gasoline or natural gas or other goods when they become more scarce. When the supply of these goods shrinks, the price goes up, and users have a reason to conserve.

But water is different. In Atlanta, authorities haven't raised prices paid by city users to reflect the scarcity of water. Indeed, in much of the region, prices have barely moved, if at all. That's not exactly a system that will encourage conservation.

The failure to raise prices is a big mistake. Studies from around the world show a 10 percent increase in the price of water can slash urban use 12 percent and farm use 20 percent.

Higher prices will be painful. But the alternative is an ever-increasing amount of red tape regarding water use. And since those rules will be useless unless enforced, that alternative will also bring a large amount of snooping into our personal lives by neighbors and government agencies.

Better yet, municipal water systems should be privatized. Many cities have contracted out the operation of their water systems to private firms. But prices are still set by city

governments. Full privatization would remove pricing decisions from government hands and allow competitive firms to adjust prices to market conditions.

Privatizing municipal water systems alone won't solve the region's water woes. There's a more fundamental problem. In much of the southeast, no one really owns much of the water. By tradition, anyone who has access to water can take as much as he wants as long as the amount is "reasonable." That worked well when there was more than enough water to go around. But a growing population has made that rule unworkable. As each user tries to get the most for himself, water is depleted. No one has a reason to conserve because whatever he saves is used by someone else. Lawmakers have restricted that rule a little. In Georgia, for instance, users must get a state permit to withdraw more than 100,000 gallons of water a day from common sources. But the basic problem remains.

There's a better way to allocate scarce water. Several western states—as well as nations such as Mexico, Australia, and Chile—have created property rights in water. This water can be used or bought or

sold, just like other goods. And that has allowed water markets to thrive in those areas.

## Market Allocation

A report by World Bank economist Mateen Thobani found that markets shift water in response to changing demand more cheaply than political processes and with less rancor. These markets also give users an incentive to conserve since any excess water they have can be sold to others. ("Formal Water Markets: Why, When and How to Introduce Tradable Water Rights in Developing Countries," *The World Bank Research Observer*, August 1997.)

Property rights and water markets can also serve the objectives of environmentalists. In the west, environmental groups have bought water from farmers and other owners and left it in streams, rivers, and lakes. That helped protect those waterways and support the fish and wildlife that depend on the water.

Privatization, property rights, and water markets could help the southeast make the best use of its now scarce water. □

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