



Water International >

Volume 27, 2002 - Issue 1

1,412 | 147 | 10
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Water as an Economic Good and Demand Management ***Paradigms with Pitfalls***

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Pages 98-104 | Published online: 22 Jan 2009

Cite this article <https://doi.org/10.1080/02508060208686982>



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Abstract

In certain circles, demand management is seen as one and the same thing as economic pricing. This thinking is stimulated by the Dublin principle that water should be considered an economic good. But is this reasoning correct? Is economic pricing an adequate means to reach more desirable levels of demand? There is considerable misunderstanding about what the concept of water as an economic good implies. In this paper it is argued that water pricing should primarily serve the purpose of financial sustainability through cost recovery. Moreover, in water pricing, adequate attention should be given to equity considerations through, for example, increasing block tariffs. Instead of economic pricing there is a need for defining a reasonable price, which provides full cost recovery but which safeguards ecological requirements and access to safe water for the poor. Giving a reasonable price to water has the additional benefit that it sends out a clear signal to the users that water should be used wisely, but the prime target of water pricing remains cost recovery. A major argument of neoclassical

economists is that economic pricing of water will facilitate the re-allocation of water from sectors with lower added value (such as agriculture) to sectors with a higher added value (such as urban water use). However, the value of alternative uses of irrigation water is often grossly over-estimated. Adequate and effective regulations may suffice in order to achieve the optimal allocation of water resources.

Keywords:

Water pricing

Dublin Principle

demand management

financial sustainability

cost recovery

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