

AEA 1966, Urban Water Supply

Outline.

I. Positive

II. Paralepsis. Some things yr. best friends won't tell. So I will not speak ---

But next time yr. enemies talk you on these points, suggest close atten.

III. Suggestions to strengthen

I. Positive.

a. Pattern of hydro-imperialism.

Underuse convenient sources, grab remote ones -- pattern of offt. discards.
C. Might not have war in Viet Nam if followed that)
Underprice " " , fail to recognize rent.

b. Demand is elastic, p. mech. can ration factor properly, are a vble.

Public sector ~~the~~ can use p. mechanism too -- shades of Lamm & Taylor!

c. Supply variability is co-equally important w. mean flow. Only the trough supply is firm. Need safety factors, ^{Not exactly new,} but p. flex. can sub. for excess capacity. is news to some, & the kind of idea exists. shd. be exploring.

d. SMC vs. LMC --- show that FRP, once built, shd. change low. (but + has low safety factor). Vickrey ed. ask no more.

e. Focus atten. on local & state policy, neglected.

~~& Touch on role of wtr. law.~~

III. Suggestions to strengthen - her. ? support basic theme.

a. Use concept of rent -- & pursue implications.

"~~the~~ Superior wtr. bear rent. Basic problem is, it is not being charged; ~~either~~ not explicitly, bcs. state gives away ~~it~~ license to use wtr; not implicitly, bcs. under the resulting tenure insecurity, wtr. not effectively alienable.

[Not $\equiv$ their "existing" supplies, which include submarginal & exclude some rent-bearing. "Existing" has conservative bias.

Conceals fact that problems are not just incremental. Entire system needs shaking up, rationalizing].

2. Rent & approp. doctrine of allocn. Mqul. wtr are expected to bear future rent.

As soon as rent develops, shld. use. But future rents have PV as soon as antic., so forces premature devt. (This, rather than agencies & bureaucracy). Moral: need to price wtr at source. Is only alternative to their "political" allocn.

3. Fear of recapture of rent. Make explicit by hi price, create jeopardy of taxes; wtr. rts. all always in jeopardy. Add to (2), double-banded reason for not corr.

4. Neg. rent when $MC < AC$. Justifies "subsidy" to distr. net. Also when have overbuilt. May justify the entire matter they deplore, use of taxes.

(using concept of rent)

b. Generalize to other resources, ? nationality not ^{peculiar} limited to wtr.

Oil

Agric.

Urban sprawl

all utilities

all controls

They overstate "wtr. is different" idea.

b. (cont.) Loss of free open mkt. in minerals produces vert. intn. w/o "bureaucrats" as scapegoats. Problem may lie in character of nat. res (free mgt. supply to appropriate)

c. Instl. & distrib. aspects of "priv. prop'ty" in wtr.

It's not priv. prop.

I.D. can't sell what it doesn't own.

Jeopardy the common condition

~~Not a historical curiosity.~~ Priv. prop'ty. is continually being created, is source of problems they deplore.

Special value of ec. mkt. allocn. w. variability of supply, which characterizes water.

~~d. Value of pooling to everyone with -- lost by rigidifying vert. intn. --~~
everyone requires his own assured supply

Need to cover min. flows to cover mean demand, (or even peak demand)

Secular storage is prohibitive. Frequent cycling neeq. for storage to pay.

So under approp. doctrines, all seek enough so natural lowest yrly

✓ flow covers needs.

Is ca. $\frac{1}{4}$ mean flow, so most wtr. wd. be wasted

Need for constraint, or most wtr. will waste.

Skip { Hi cost of ex. capex? Nothing c'd. to cost of vert. intn.
E.g. suppose one stream, Kern, were shared by LA & SF.
(Or the Delaware by NY & Phila. Many do share the Colo. & many have alternative sources, thus can pool risk.

~~Much pool storage is most productive where cycles rapidly.~~

Need for ~~Much SC storage is not being used b/c. limited to overlying lands~~

price mechanism:

a) ~~Need~~ p. flex. for s.r. rationing.

b) ~~Munis.~~ Muni. pay state or fed. a rent for wtr,

rather than appropriate, so they'll ex. pay for storage, & adjust to s.r. in price or rationing.

c) ~~Need~~ pooling -- flexibility makes great savings.

Pool storage as well as wtr. Those who have cheap secular storage in ground basins shd. be ~~be~~ draw on that in drought on Colo, leave low flows to others w/o it, & recharge in floods. Price mechanism wd. cause that.

i.e. pool storage as well as wtr.

Much SC storage must be limited to overlying lands.

Urban sprawl stimulates excess demand

e. No analysis of area pricing -- altho that is major issue, treated by Brewer, Hall, State Dept., et al.

In interregional exch., also in local distr. They treat SC as unit. Related to p. discrim. And their position needs patching up.

They favor price discrim. in genl. as means to capture cons. surplus but oppose diser. for agric. (Even tho ag. probably gets dumping wto, & nearer Colo. source) ~~The discrim.~~

Most common form of p. diser. is uniform area pricing. Milking rich centers to feed lean outlands. Elast. of demand is higher in outlands -- more lawns; Gottlieb found smaller cities higher elast. So do they favor? LA bearing the burden for SC, by taxes or equal rates, is p. discrim.

Skip { f. ~~xxxx~~ Generalize rupture-bldg. syndrome of utilities, priv. or public. e.g. nat. gas, to sustain rate base. Not peculiar to agencies.
g. Need to break down problem into parts. And emphasize local distr. more. That is much bigger share of all costs than their share of attr.

Need to reappraise whole situ. in view of tight M
✓ h. ~~OS~~ ~~Shul~~ congrats. selves for pushing higher i. Now, capt. tied up at 3% ~~is~~ in 1960 is wasting.

Skip { ② (Other hand, if tight M stops construction, wto. goes to those who started where they cd. get capt.)
③ L.A. may collapse

✓ ④ accentuates need for fast deval. to ease on capt.; also congrats deval. Both furthered by pricing below cost, & using local taxes.

No sound sweeter to the ear...

~~i.) Need to understand L.A. strategy. Posture of perpetual amazement ill becomes veterans. Getting too old to be astonished. "Shocked but hardly surprised".~~

Finis j) Positive proposals. Throw the reveals out is confession of bewilderment on what m.e. of performance? ~~We need new~~ ^{repting a 1st l.} rules w. in which reveals operate are ~~what need managing the problem~~ ^{We need new rules, not new reveals. (I agree w. Schmid).}
How make wtr. more x-fable? How can (I.D) tell what it doesn't own?

k.) Get beyond simple model, add interesting things like Vickrey:

1. People buy access to ~~the~~ supply on demand, that has a value beyond units of stock taken
- 2.

Skip l.) ^{Lumpsum or indivisibility of asset. They put all together.}
Treat separately the ques. of pricing method, & govt. vs. priv. agency.
Treat taxes separately
Treat SC & other areas separately

Is a certain nostalgic quality about their attribution of all ills to agency imperialism. Takes one back to J. High says where Landonites battled New Dealers on that level. But world is much more interesting than that.

II. On negative side -

Are some things yr. best friends won't tell you. So I resort to parables. I will not dwell on ~~errors~~ sins of overstatement; ^{on their} ~~of~~ overgeneralizing from 2 cities; ^{on their} ~~of~~ loaded language. ^{on their} ~~of~~ hissing darkly, ^{imputing to unspecified} ~~that~~ "pressure" ^{of munic. mercantilists, power cos., land spec., newspapers, lawyers, org. men -- all} ~~accounts for~~ misbehavior. ^{of attributing all the sins of munic. power} ~~of~~ structures, to "politicians & bureaucrats" & ~~agency imperialism~~ ^{negro-imperialism,} I will not tell them their posture of perpetual surprise has lost its force as a rhetorical device.

No, I leave those visceral ~~bad~~ matters to their enemies. I merely advise them ~~they have left themselves vulnerable~~ to listen carefully next time their enemies take off on those matters; ^{whereby} ~~if~~ their enemies may be their best friends.

Wishes to consult:

1. My review of them
2. Kowale study
3. Review of Keene

Positive

4. Rural-urban comp. for wtr.
5. KPFA talks
6. Files on
SF
SL
Colo. wtr.

7. Doe paper

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Focus on

1. ~~At~~ Local & state problems. Excess attr. to Fed. by others.

✓ 2. Document waste. Emphasize need to ease on what we have before seeking more. Allen. ~~At~~ [What he near Viet Nam today if applied at nat. level, but won't impute that view to authors]

3. Take clear position

4. Touch on ineptness of wtr. law.

5. Document pattern of hydro-imperialism, esp. disadv.

6. Recognize Cuban acknowledgment of need for safety factors; & turning this embarrassment to their own acct. by emphasizing that price flex. is a safety factor, & a much better one than excess capax.

I agree w. much they say. Bes. I agree, I am the more distressed ~~that they present their case~~ at weaknesses. So will conc. on how they might strengthen their case.

Am their friend. Some things yr. best friends wait & tell you. So I will not dwell on their occasional use of loaded phrases like

--- I will not discuss & tell them how they open themselves to charges of extremism by overstating half a dozen most of their major points and ^{over}generalizing violently from their sample of 2 cities.

I will not scold them for ^{darkly}imputing to "pressure" actions of which they disapprove.

I will not tax them for the ~~bad~~ impression they leave by resorting to the diatribe of Alf Landon & imputing to "politicians & bureaucrats" all the sins of

the power structure of a city - its land specs, its newspaper moguls,
its lawyers

I overlook their ^{posture of rejected} ~~self-proclaimed~~ unrecognized righteousness. I speak out of this in consistency
of criticizing the crusade ~~for~~ mission of others while mounting a fierce one of their own.

No, there unhappy duties I leave to their enemies
(who by so doing may be their best friends).

But in genl. am disappointed in how little they have evolved since
'60; how little they have developed the fresh promises, ideas there; how much better
back on ^{visceral} ~~foundations~~ ^{of their position}.
Rather, how might they strengthen their basically sound case?

1. More emphasis on the approp. doctrine, & result's pattern of
hydro-imperialism. Instl. structure w-in which these ec. outrages occur is
much more complex than "politicians & bureaucrats". Agency imperialism is only an
in-incident to munic. imperialism. Does anyone really think that a few moving
civil servants push around the power structure of L.A. or N.Y.?

2. More emphasis on area pricing. Both in collection & distribution.

3. More breaking of problem into parts. Collections, storage, distr.
Recognize clear cost elements, validity of tax support -- neg. rents.

4. Positive proposals for making wtr. more transferable.
L.A. can get ag. wtr. as groves are subdivided. But getting ^{portions of} F.F.D.
wtr. ^{w/ buy's land & all,} meets highest barriers the ingenuity of lawyers & judges
has devised

5. Come to grips w. ^{origin of} ~~pr~~ ^{pr} property (priv. & munic.) in
wtr. Round out philosophy. Not historical gen. -- property is in creation, is source of
the problems they display.
Need to price wtr. at source.
after 5-6 hrs, sorry not to see development of thought begun in their last chap.

hydro-captivity
hydro-headed

6. Acknowledge idea that ~~the~~ root of ^{hydro-}irrationality is idea of fixed needs, inelastic demand. Hydro-irrationality is hydro-headed, and the idea of fixed needs is one, but a proper ranking of causes of foolishness w.d. place is after.
7. ~~Discuss~~ Treat separately the ~~gen.~~ ^{method} of pricing; 2 ^{govt.} vs. ^{priv. agency}.
They have indivisibilities -- lump together in Gestalt, learn to
stereotype positions. ^{1st fact, priv. property claims often private vs. = inequl. allocn.}
~~Explain, transparency of free cost. arguments~~
8. Broaden their application of $MC = P$.
a. The "product" is not simply wtr, but wtr. on tap, on demand.
Payment as fn. of time makes sense.
b. The product is xptn. Recognize they are dealing w. xpt. wtr, 2 spatial relations
9. Acknowledge value of pooling
10. Developmental problems, need for fast devt.
11. Xptn. cost, need for compact devt.
12. ~~Water~~ Bias in exempting munic. bonds from inc. tax, 2 water from property tax.
13. Implics. for future of fast LA is in serious trouble.

14. Relate w to urban sprawl

15. Possibilities of billboard-bull exchanges, get Kern R. w to

16. Historical features of commercial w to. cos., 2 reasons.

17. Use concept of rent (of superior w to.)

a. Emphasize on superior w to. supplies before (or while) extending w to.

9. e. they develop a rent, is genl. way to express it.

They shd. tell us sources of resistance -- owners do not own, & do not want to

b. Cf. w. universal pattern in resource distrib.: urban sprawl, ag. sprawl, oil ports, cartel admin. in many indy. They overstate idea that people are less rational re w to. than other resources.

c. Land rent inverse to w to rent

d. Neg. rent to decr. cost opus.

e. "Existing" supplies is crude concept. Rent bearing supplies are what shd. be used, & the 2 concepts ~~are~~

18. In basic, they have let their anti-state dogma blind them ^{objective perceptions} to the actual problems. Ambiguous property is not culpable as a "political rigidity". They attribute all to politics & interventionist dogma. But are creator ownership means premature use, discommod. ex. on superior w to.; also is fear of how state assert sovereignty

19. N.Y. is not an "e.g." -- only place where there is rent control.

20. I do not know N.Y., but looks as tho has succeeded in claiming Delaware.

21. Analogy of wtr. hogging to vertical integrat. in minerals. Leads of open water.

Aggravated by hi variability of supply.

Sources of insurance: ex. capex, price flex, pool's sources. They overlook

#3

22. It is not news that productivity of wtr. storage depends on steadiness of supply; nor that insurance is desirable; nor that historical record is too short to project from. For whom are they pontificating? Value of storage depends on how often reservoir fills & empties -- i.e. the freq. of cycle.

23. Pollm. control upstream exists wd. be desirable to end use of Hudson downstream.

24. Final prescription, turn the rascals out, is almost a declaration of bankruptcy. Which rascals? On what measure of performance? Hardly a clue, except, implicitly, turning a profit!

Suggest ^{we need some} ~~the same rascals~~ need new ideas, not new rascals. Present rascals are probably doing tolerably well w-in the rules they play by. M & H want to change the rules. Their pleas sound plaintive, unreasonable.

22 (continued) They are right. There is room for some interesting work there. They shld. do more of that, pontificate less. Hi propensity to pontificate

Place storage where freq. of cycle is highest. Thus, the humble toilet tank, cycling many times daily, saves more wtr. than anything

22 (cont.).

Home storage is quite, most cc., then, despite hi cost p. cu. ft., & shd. be encouraged.

Secular, ^{surface} storage is very costly. Supply is variable. $\therefore$ you must have capax. for low yrs. Capacity not in terms of storage, but natural flow. (Comment -- we can have seasonal storage).

But that assures waste of most of wt. most of time.

Morals:

- $\therefore$ must have p. flex. for s.r. rationing.
- $\therefore$ must make munics. pay state for wt. so they'll undergo cost of secular storage & discomfort of periodic s.r. in price or other rationing.

23. Overstates power of upstream position.

But correctly shows power of need & getting in a claim.

24. Overstate future growth of L.A., nation's softest housing robot. & hi unemployment area.

~~25.~~ Overlook area pricing. Treat SC as a unit, say $P < MC$.
Not so in some areas, where MC of dirt = 0.

Their method of det'g MC is suspect.

~~26.~~ They object to discrim. p. for agric -- yet favor price discrim. greatly! Rump wt. on agric., etc., is also lower cost wt.

~~27.~~ They underemphasize. Pattern of milking milk territory to feed lean is universal among utilities. Is common form taken by p. discrim.

28. Capt. Shortage may stretch out FRP beyond '72.
But will also stop growth of L.A.

29. Simple ideology blinds them to villainous role of pot. power cor.
e.g. in pushing FRP as big power consumer

30. Why was Colo. agreement unused for so long if wtr underpriced?

31. No effort to understand L.A. strategy.

a. Dominated by suburban specs.

b. Price paid for regional unity & size in Austin.

c. Munic. imperialism

Investment in future tax base -- common pattern

d. Commitment to regional growth.

"Astounding, incomprehensible", etc. By this time they shd. be shocked but not surprised.

32. Imp. I.D. cannot sell what it doesn't own.

33. Jeopardy of wtr. rts. -- the common condition

E.g. 308 fedly licensed hydroel. projects, terms ≤ 50 yrs.

First expires in '68, U.S. can recapture. PG&E comes up same.

They shd. put selves on back for insisting on using hi i. Today, M tied up in 2% projects cannot be untied.

How far ahead of demand is it to build? They are consistent in requiring not far ahead -- that is the implication of hi i.

Hirshleifer & Milliman

1. Overpricing is also common.
2. Area pricing is important. neglected gen.
3. Have not read their critics carefully. Need to absorb, like U.S. or Moscow.
4. Hans Doe, value of accessibility
5. Cost of occupying space. Knowing about variability, they shd. see value of having storage near demand.
6. Value of pooling -- people interested in peaking shd. list that hand.
7. In genl, push too hard the abstr. model, resist the aspects that pose problems: traversal of space; ^{value of acc. option;} standby capacity; ^{insurance needs for ex. cost cap.} decig. costs -- the matter treated so well by Vickrey in Microstation.
8. Cities may underprice to cover cost of the long aqueducts they build & simul. be overpriced cfd. to the short ones they might build.
9. A "pub. sector" wd. not nearly be ^{less political} better, wd. be publicly reg.
10. There may be a consumer pref. for free input. wtr., at hi fixed cost, just as w. street lights? If demand is quite inelastic, and product cheap, that could be rational way to do.

11. They see some things very clearly, at the price of seeing others not at all.

12. Loaded language, unfortunate.

13. Concept of homogeneous tax base.

Some taxes are like prices

Some prices are flat rates -- like 'phone bill.

Some pub. enterprise costs breed on water -- like TV advertising.

So they shouldn't equate pub. enterprise & price systems = SMC

14. Why doesn't underpriced wtr. get a rent & thus be allocated right?

Like land. Bus. of distr. cost. But how, then, can there be the free mkt. in wtr. mts. they propose?

15. Cheap wtr. is a status symbol. A symbol of intent to grow.

A hostage, a commitment. Social psychology of it is important.

16. Contrast total acceptance of cons. sovty. in mkt. vs. total rejection of voter sovereignty at polls. They don't require buyers of wtr. to be rational.

17. Sophomoric.

Failed to learn from own books, re W. L. L.

Revert to conventional firmament of villains -- politicians & bureaucrats.
The rhetoric of Alf Landon. One begins to wonder if the analysis is followed wherever it may lead, or if the rhetoric, instead of a device, is not the underlying scheme?

18. I am a friend.

a. Some things yr. best friends won't tell you -- I'll leave those to the enemies, of whom plenty.

b. W. friends like me, who needs enemies?

Trouble w. safety factor is, the excess capacity makes you keep low p , which Δ s demand & uses the excess capacity. If you really need it for safety, shd. raise p . before you use it for other things. But price flexibility is a safety factor.