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Economic Incentives and Conservation: Crowding-in Social Norms in a Groundwater Commons

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Abstract:

Price-based interventions can be corrective where users extract from a common resource, but may also impact existing social norms, often crowding them out. In contrast, I find a pumping fee implemented by a group of irrigators in Southern Colorado effectively crowds-in pro-conservation norms, enhancing the financial incentive's impact. Using a unique, spatially oriented panel-data set of groundwater wells, I separate the direct role of increased pumping costs from the indirect effect transmitted through altered conservation norms. To quantify conservation behavior, I estimate how pumping at one well responds to pumping at nearby wells – using instrumental variables to address simultaneity bias – and interact that behavior with a difference-in-difference framework to assess the influence of the intervention. In the preferred specification, the fee directly accounts for approximately 74% of the reduced pumping and the remaining 26% comes from crowding-in conservation norms.

Keywords: Irrigation, Groundwater, Climate Change, Conservation, Social Norms

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