

W A T E R
ALLOCATION
MID-TERM GRADE: C | FINAL GRADE: B-

Water allocation among competing uses—agricultural, municipal, industrial, and environmental—continues to be a controversial issue, especially in the West where droughts have exacerbated the problem. In particular, the Klamath River basin in southern Oregon and northern California remains in the spotlight. There, protection of fish listed under the Endangered Species Act has been used to prevent agricultural water diversions from federal water projects.

Conflicting water demands can be resolved through water markets if federal and state agencies will clarify water rights and allow willing buyer/willing seller transactions to take place. As environmental demands increasingly come into conflict with traditional water uses, water markets are a tool for reducing acrimony and encouraging cooperation. As Secretary of Interior Gale Norton recognized early in the administration, “lack of clarity about ownership and control of water leads to conflict” (Norton 2002). The extent to which

the administration has clarified property rights is one of the yardsticks of assessment.

THE MID-TERM REPORT

PERC’s mid-term report concluded that free market environmentalism would require federal agencies involved with water allocation to clarify water rights and reduce the transaction costs associated with market transfers of those rights among competing users. The Bush administration’s attempt to establish a limited water market in the Klamath Basin and its choice to pay lip service to the “beneficiary pays” principle in the CALFED program were the chief accomplishments in this area, earning it a C. To improve that grade, the report card called on the administration to take further steps to clarify water rights, to meet contractual obligations under federal water projects, and to allow water owners or water users with contracts for federally sup-

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plied water to market their water to other demanders.

ASSESSING THE FULL FOUR YEARS

During the second semester, the Bush administration's big water allocation initiative was "Water 2025." Because the program is new, it remains to be seen how much it will change federal water policy, but it receives high marks for the principles on which it was formed. The administration's program states that it intends to "recognize and respect state, tribal, and federal water rights, contracts, and interstate compacts or decrees . . . that allocate the right to use water"; "enhance water conservation, use efficiency, and resource monitoring to allow existing water supplies to be used more efficiently"; and "use collaborative approaches and market based transfers to minimize conflicts" (U.S. Dept. of the Interior 2004). Beyond these principles, however, Water 2025 is mainly grandiose rhetoric such as "help stretch or increase water supplies to satisfy the demand of growing populations, protect environmental needs, and strengthen regional, tribal, and local economies."

Also disappointing is evidence that the president's fiscal year 2005 budget is filling up the water pork barrel. In the Klamath River basin alone the budget calls for investing \$105 million on habitat restoration, a 21 percent increase over fiscal year 2004 and a 38 percent increase since 2002; it requests over \$2 million to work toward removal of Chiloquin Dam; and it proposes an increase of \$15 million for salmon resto-

ration, bringing the total funding for salmon restoration in fiscal year 2005 to over \$342 million. The budget also provides \$100 million for the Pacific Coast Salmon Recovery Fund, a \$10 million increase over fiscal year 2004. So much water pork would not be necessary if the administration focused on real water marketing.

A step in this direction was the allocation of \$1 million to lease water from farmers and ranchers on Montana's Big Hole River in anticipation of another summer drought. The water would be kept in the stream in order to assure the safety of the endangered arctic grayling. Because rains materialized, however, instream flows were adequate without additional water. Although \$1 million is not a lot of money by federal standards, it was money not well spent on increasing flows, and it only provided an unnecessary windfall for the sellers.

Had this been a true market transaction between water sellers and private water conservation groups, a private group would have had more incentive to find innovative contractual mechanisms to avoid such a financial loss. (This would be the case even if the funding was public.) For example, option contracts allow buyers to pay for an option to purchase water and only exercise the option if and when the water is actually needed.¹ Nonetheless, the Big Hole purchase was a step in the direction of free market environmentalism and certainly represents an improvement over trying to reallocate water politically from federal projects.

The Bush administration also receives a high grade for transferring Bureau of Reclamation projects to interested project benefi-

WATER ALLOCATION

ciaries who will continue to maintain and operate the facilities for improving water management. According to John Keys (2004), commissioner of the bureau, since 2000 the agency has transferred title to thirteen projects (or parts of projects). Because such transfers are both fiscally prudent and efficiency-enhancing, they are consistent with principles of free market environmentalism.

The administration receives lower marks for its stand on water diversion from the Great Lakes. In August 2004, President Bush, campaigning in Michigan, pledged never to allow Great Lakes water to be diverted to water-short regions of the country, such as the West (Flesher 2004). A free market environmentalism stance would have encouraged adjudication of rights to Great Lakes water, required any transactions to be willing buyer/willing seller exchanges, and pledged not to subsidize any transactions. Because it is doubtful that any diversions would be economical if the federal government did not subsidize them, the free market approach would yield the same result—no diversions—without calling on the heavy hand of government.

Similarly, the administration's approach to restoring the Everglades is to pour more money into its Comprehensive Everglades Restoration Plan (CERP). Bush has supported a 30-year plan to spend \$7.8 billion on restoration (Carter 2003). Because most of the problems result from subsidies to water use and to sugar production, the administration should do more to eliminate the subsidies, rather than just providing more pork.

On balance, the Bush administration

has made important improvements in its approach to water allocation. Its Water 2025 is built on the right principles; now it needs to implement more policies based on those principles. The final grade for water allocation is B-.

Water Allocation B-

RECOMMENDATIONS FOR THE NEXT ADMINISTRATION

The next administration should center its water policy around some of the principles in Water 2025, but it must be sure to go beyond the rhetoric of markets. It should clarify water rights, honor contracts for water delivery once they have been made, and facilitate voluntary water exchanges. The answer to water reallocation among competing uses is not to spend more money but to remove subsidies that encourage overuse and to get the private sector involved reallocating water from lower- to higher-valued uses.

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NOTE

1. For a discussion of such innovative approaches, see Anderson and Snyder (1997) and Landry (1998).