

FOREWORD

California's famous moniker – the Golden State – is becoming all too accurate as the state enters the fifth year of drought and the summer heat begins to dry out its rolling hillsides. A lackluster El Niño failed to deliver a promised deluge of rain and ultimately brought only an average amount of precipitation – far from what was needed to make up for several years of record low rains and snow-packs.

The current drought is not California's first. It certainly will not be its last. There's no panacea to California's ever-fluctuating cycles of wet years and dry years. But, some commonsense steps can be taken to alleviate this vexing challenge that impacts families, businesses, farmers and the environment. One important step is the creation of a statewide water market.

California's natural drought cycles are made worse by ineffective water management policies – policies that drown water managers in top-down, command and control regulations. The byzantine set of rules and pricing requirements mandated on water at all stages of its distribution across the state create absurd market inefficiencies. These regulations prevent markets from doing what they do well – allocating scarce resources.

In 2012, Arthur B. Laffer, head of the Laffer Center at the Pacific Research Institute, co-authored a book, "Eureka!: How to Fix California," in which he argued that a robust water market would ensure better distribution of water in times of drought. Such a market would allow parties in one part of the state needing water to purchase it from sellers in another area where it might otherwise be flushed out to sea or offloaded at a low price to grow low-value crops. A functioning water market would ensure that this scarce resource is used where it is needed and can be put to the most productive use – which may include farming, alleviating environmental shortages or securing supplies for urban water districts and cities.

To build an effective water market, willing water sellers and buyers must be given the tools they need – including transparent data on the price and availability of water across the state. They must also be given relief from the many regulations and government-imposed obstacles that currently make most water transfers a nightmare of red-tape and government bureaucracy. If California is to continue to thrive and prosper in future times of scarcity, it cannot afford to miss this opportunity and become better prepared for future droughts.

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