



Water and the California Economy

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SUMMARY

What are the key economic issues related to water management in California today? This report offers a consensus view, drawn from a wide-ranging group of experts. We find that despite many beneficial innovations in water management over the last several decades, risks to the economy remain.

Water is indeed vital to the California economy, but not always in the ways one might think. It is a scarce resource, subject to numerous and competing demands—including increasing demands for environmental uses. And the state essentially stopped expanding its vast surface storage network several decades ago. Yet the economy has weathered periodic droughts, and enough water has been available to support a growing population and economy, thanks to management innovations including water use efficiency, water markets, underground storage (or “banking”), and reuse of highly treated wastewater.

Another reason for resilience: California’s economy has become less reliant on water-intensive activities. For instance, agriculture and related manufacturing account for nearly four-fifths of all business and residential water use—but make up just 2 percent of state GDP and 4 percent of all jobs.

But California’s current water system raises several red flags. Catastrophic interruptions of water supplies from earthquakes and floods could cause large short-term losses; unreliable supplies could also jeopardize business and infrastructure investments that support economic growth. Catastrophic flood risk and severely overdrafted groundwater basins are major concerns in some regions.

California is also susceptible to increasing costs associated with climate change, which is expected to raise environmental demands on the water system, reduce “free” seasonal water storage in the mountain snowpack, and increase the size and frequency of coastal floods.

Smarter management and investment can make California’s economy more resilient in the face of these threats. We recommend seven key changes to support California’s economic vitality.

1. **Modernize water measurement and pricing** with better estimates of water use and prices that reflect water’s economic value.
2. **Reduce vulnerability to water supply interruptions**, particularly for the large parts of the state that rely on water exported through the Sacramento–San Joaquin Delta, where supplies are susceptible to levee failures and measures to protect endangered species.
3. **Strengthen water markets** by clarifying and streamlining the approval process for the sale and lease of water rights and addressing infrastructure gaps.
4. **Improve local groundwater management** to facilitate groundwater banking and reduce overdraft.
5. **Reduce exposure to catastrophic flood risk** by targeting flood protection dollars and making better land use decisions.
6. **Improve environmental management** through more integrated, coordinated, and accountable approaches.
7. **Develop more reliable funding**, especially for environmental management, flood protection, and statewide data collection and analysis.

Many of these changes require strong, proactive state leadership. But all stakeholders, including the business community, have a vital role to play, by engaging in the policy process and helping to ensure that California undertakes the water reforms needed to support a healthy and prosperous economy.

For the full report and related resources, please visit our publication page:
<http://www.ppic.org/main/publication.asp?i=1015>