



Criteria for the Assignment of Financial Responsibility

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CRITERIA FOR THE ASSIGNMENT OF FINANCIAL RESPONSIBILITY

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I seem to have drawn the most ponderous title of the Symposium. In words of one syllable I rather think it means "Who should pay?" and, equally important, "How should they pay?" And I find myself unable to analyze this question without a few words about what project they should pay for.

My colleagues in the speech department tell me that one shouldn't cover more than three points in a half-hour talk, but since this is a KPFA audience I'm going to try to lower the par and do three points in fifteen minutes. First I want to talk about the sharing of costs between service areas and the rest of the State; secondly, about sharing of costs between user charges and land taxes; and third, the question of subsidy to water.

I hope I may be forgiven for prefixing my first point by saying that if we had reached that golden age where philosophers were kings and kings were philosophers, I don't think we'd build the Feather River Project according to the present plan. Sacramento has an answer for that one, usually something like this: "Whatever you think it is, it's really something different." And, of course, the plans haven't jelled yet. But I'm not straining at gnats now. It's swallowing the camel that's giving me trouble. We call this the California Water Plan but

that's what it's not. California needs a water plan, an integrated network of storage and distribution works to link together its hundreds of disjointed water supply systems with their criss-crossing, interlaced ditches and their unequal and uneconomical allocation of waters. I think I could name five or six pairs of ditches in the San Joaquin Valley which not only are parallel but which are carrying water in opposite directions. There are enormous savings to be realized by integration. But the California Water Plan is not that. It does not propose to disturb any of the obsolete, picturesque little principalities of our thoroughly Balkanized water system. It would simply add another unintegrated system. It would insinuate another water line through the tangle that we already have, crossing over some, under others, running parallel to still more, including several which would be carrying water from south to north against its flow -- for example, the Calloway Canal from the Kern River, and the old Miller and Lux system of the Central California I.D. in Los Banos.

As a result the project is too costly. First, it's costlier than it needs to be. There are many cheaper ways to get water to Southern California than a direct line from the Feather River. There is a lot of water in between that I would call surplus, and which many persons more competent than I have called the same, but which has come to be regarded as politically untouchable. And even without making any net draft on these sacred rivers in between--and I mean the Stanislaus, the Merced, the Tuolumne, the San Joaquin and perhaps some others--the State could reduce costs enormously if it could just enlist the cooperation of these local interests to permit water exchanges.

Secondly, it's costlier than the traffic will bear. One principle seems to emerge clearly from recent water developments in California. People will vote for water, but they will pay for power. In every

multi-purpose project of recent years power has carried water financially. Now we have before the house a multi-purpose project which is a net consumer of power and seems to involve high unit costs of other kinds all along the line. There is little chance I can see of that it will pay for itself from water sales. And so the rest of the State is being called on to help support the project in a variety of ways. And I am assuming that no one of KPFA caliber intelligence has been misled by all the double talk on this subject. The off-shore oil revenues which are being used are State funds; borrowing the State's credit is a subsidy. [Lending your credit is a little bit like lending your lawnmower to your neighbor. It doesn't always come back in quite as good shape as it left you.] Of course, power customers in the north are going to have to yield a large profit to avoid undercutting the power companies. As I say, I am assuming that you know all this.

So we have heard a good deal of talk to this effect: "Why should the areas that have developed their own waters pay for the water of other areas?" There is some justice in this point of view, but I don't find it completely convincing. Because those who have water have gotten more than just the value of what they put in to develop it. They have appropriated a valuable natural resource which is the property of the people of the State--not just in a poetic sense but in a legal sense--for which they pay nothing. And not content with taking what they need, they have tied up a good deal in excess of economic use. So if the rest of us are called on to help pay for this project, it's perhaps no more than we deserve. There's a rough compensatory principle involved here.

But while there may be a certain rough justice in this, it's much too rough. It sacrifices efficiency to an extremely crude and primitive concept of interregional equity. It is not developing our waters to

the best advantage at the least cost. So if we object to paying for someone else's water, the first step, I should say, would be to direct the Department of Water Resources to lay out a real California water plan, to maximize the joint benefits, to mix the sacred waters with the profane ones and really make the most of California's limited water resources. Then we could talk a little more constructively about an ideal sharing of costs. I mean no criticism of the technicians in the Department of Water Resources. I think that they would be glad to do a plan of this sort and that they are aware of the possibilities. The limiting factor is the voters and the rotten borough system and the legislatures which result. So much for point number one. We could talk all day about that.

But here's point number two, and we could talk for a week about this one. Once we've settled on a plan, and we will, and allocated the shares of water, how shall we charge for it? This decision can make or break the project. California is rich in enabling legislation. We have 20 or 30 kinds of water districts to choose from that can do anything but stand on their heads. So the choice can be made on economic grounds. In general there is a choice between user charges, property taxes and land taxes.

I should say that the first and the third--the user charges and the land taxes--have their place in the scheme of finance. But the general property tax--never. And I'll tell you why. A water project which opens new lands is a tail that wags a very big dog. The capital we pour into the project itself is not very much compared to the capital that private individuals must pour in to develop lands which the project opens for use. The success of the project depends on private capital formation to improve the lands served by the project. If we tax those improvements, as a general property tax does, we are obstructing the very thing that we most need to encourage. This has always been a major problem on

water development projects. It is more than ever a problem in California today. California does not generate enough capital to finance its own growth. It imports capital from the East. It won't come as news to very many people that these eastern sources for reasons beyond our control are expensive to tap. There is a risk that California may have to fall back on its own resources. In these circumstances, it is of utmost importance that tax policy be such as not to suppress private capital formation.

That leaves us with user charges and land taxes. I should say it's desirable to use both, but not just in any old mixture. A good rule of thumb is to use user charges to cover variable costs and land taxes to cover fixed costs. But that's only a rough rule. And in the dynamics of development, there are important exceptions.

The crisis of every water supply project is the developmental period--just after the major works are built and before the lands which they serve have come into production. I'll mention two elements of this crisis, the time element and a space element. First the time element. It would be nice if the state could add small increments to its system as demand develops. But we can't lay a one-inch pipe from Oroville to San Diego every time a new household taps on. To keep down unit costs, we have to proceed in a big way and stick our necks way out financially. And once we've done that, depreciation, interest, and maintenance start eating us up right away.

Is this great monument that we build going to be a white elephant or a hard-used monument to intelligent social policy? That depends on how fast landholders get busy putting lands into production. Now a century of experience has shown that that will not be very fast if we simply say, "Here it is, fellows. Whenever you're ready, we'll be waiting." They will sit tight. Or they will advertise in the papers

and sell to gullible speculators from Timbuktu to Tokyo. The project will be a drain on the State for thirty years before half the lands start taking water.

The way to build a fire under these landholders is to let them pay not for the water they use but for having water made available for use. Let them pay a flat rate per acre per year, whether they use water or not. In this way they will assume the risk of their own behavior. The State is assured of a market for its water, and the landholder is prompted, in the most compelling way, to develop his lands.

This brings me to the second aspect of the critical period--the spatial one. Dams and reservoirs are very photogenic, and we often get the impression they are the project. But most of the money goes into canals and ditches--the big trunks, the limbs, the branches and the twigs--the distribution system.

To keep costs within reasonable bounds we have to keep down ditch mileage to a minimum. The way to do that is to serve land in compact blocks as much as nature will allow. The way to get land developed in compact blocks, instead of in stray bits and pieces scattered all over the landscape, is to select the most economical service area, make water available to it, and tax its lands whether they take any water or not.

Once we've stamped a land-use layout on an area, we've left a heritage to last for a long, long time. Few human creations are so permanent as the spatial pattern of settlement, because once it is established, everything is built to conform to it. Therefore, compact settlement is of such paramount importance in the developmental period that again, if philosophers were kings and kings were philosophers, I think they would raise the entire revenue from land taxes for the

first ten or fifteen years or so, and charge nothing for water itself. For the land tax is not just a means of raising money, it is the only way I know of to get lands developed quickly and compactly. And nothing is so vital to the success of a water project.

Now our philosopher-kings would soon notice, if they are charging no water tolls, that people would use water wastefully. And after they have passed the land-settlement crisis, they will decide--I think wisely--to put a price on water as well, in recognition of its scarcity value. And they will announce in advance that they are planning to do this, lest anyone tap onto the system who is not willing to pay the price.

Now this brings me to my third point, for which I have left little time. We've been getting a wave of disclaimers recently from large landholders to the effect that they want no subsidy. They don't want the State's money. They want to pay their full share of allocated costs.

Now cost allocation is largely a ritual wherein the scribes and the Pharisees sprinkle holy water on certain interests. And I hope no one takes it very seriously. I am assuming that KPFA buffs would be aware that there are still large elements of real subsidy in the so-called allocated costs of water, which I mentioned earlier in this talk. And you'll hear a lot about them before November.

But I'd like to call attention to one other subsidy which is rarely mentioned, and that is the value of the water itself. The general assumption seems to be that water is free, that the only costs we should ask people to pay are those of storing and distributing it. But I hope we haven't forgotten the huge fuss we have just been through over who gets the water--not the developed water but just the raw, undeveloped water at the source. This makes it pretty clear, I think, that water

itself has value. And I don't see why the State should give it away free from the standpoint either of equity or efficiency. What better resolution could there be to the controversy than to let the successful claimants pay the rest of us some compensation? Unless they do they have received another large element of subsidy, and they are without the incentive that they ought to have to economize on these scarce water resources.

And that's a point we could discuss for another month at least, but I see my time is up, so I will apologize for keeping you from lunch and thank you for your kind attention.