

OSTROM WORKSHOP RESEARCH SERIES

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“Transaction Costs in Water Transfers: The Issue of Local Control”

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12:00–1:00 PM • Ostrom Workshop, 513 N. Park

Water markets enjoy broad support among economists as a means of allocating water to its highest-value uses. Yet it is well known that water markets have not been widely adopted in many areas, contributing to sizable discrepancies in its marginal value, sometimes an order of magnitude or more. The scholarly literature has pointed to various sources of transaction costs that impede the smooth flow of water across different economic sectors. This paper proposes another possible source of transaction costs that impedes water transfers in general: behavioral factors that discourage water exports from agricultural areas. Specifically, the possibility of loss aversion and endowment effects may induce farmers to want to retain water to which they have historically enjoyed property rights. This paper examines evidence from 131 groundwater management plans created in California from 1991 through 2015 that are consistent with this hypothesis.



Mark Kanazawa is Wadsworth A. Williams Professor of Economics at Carleton College, where he has served as chair of the economics department and director of environmental studies. He received his Ph.D. in economics from Stanford University in 1987. His research interests focus on institutional economics, law and economics, resource economics, and economic history. He has published on a variety of topics, including the development of California water law, public lands disposal policy, state railroad regulation, and climate change. At the Ostrom Workshop, his research focuses on understanding jurisdictional interactions across different levels of government that affect groundwater management in California, and the implications for groundwater policy.

Presentations are open to the public (see our website for papers). You are welcome to bring your lunch. For questions, contact Allison Sturgeon (sturgeon@iu.edu; 812/855-3151).