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The Anatomy of Hydrologic Externalities: Limitations to Water Markets

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Proposed Paper for UCOWR Meeting in Portland

The Anatomy of Hydrologic Externalities: Limitations to Water Markets

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Abstract: Voluntary water transfers are one key to achieving efficient water use, whether on an international, interstate, or local level. Without voluntary transfers, changing patterns of water use cannot take place efficiently, and costly engineering solutions are more likely to be pursued. But why are there so few water transactions? The answer lies with the hydrology and with the historical patterns of water use and water institutions in a river basin. Water transactions, or other circumstances which change the form, place and timing of use, disturb the existing network of interdependent water users and change the pattern and extent of the positive and negative hydrologic externalities in the system. These patterns of externalities often result in market failures, but neither the externalities nor the resulting market failures are well understood. This paper explores how basin hydrology results in such externalities, and how water users both impact and are impacted by changes in these externalities.