

# The historical background of California's water crisis

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California's ongoing drought has set new records for the lowest annual precipitation levels, while 2014 brought the highest calendar-year temperature for the state. In the last week of May, the snowpack of the Sierra Nevada mountain range, which normally provides the largest yearly source of freshwater for the state, measured zero percent of normal.

A University of California-Davis study recently found that farmers will receive 2.7 million acre-feet, or roughly 33 percent, less surface water than in a normal year, with unsustainable groundwater pumping offsetting 70 percent of this deficit. Farmers are expected to fallow roughly 560,000 acres of farmland, or 6-7 percent of the state's average irrigated cropland, with a resultant loss of approximately 18,600 jobs.

The drought is not simply a natural disaster, as there is near consensus among scientists that climate change plays a major role in reducing available water supplies. The refusal to seriously address this issue by capitalist governments, largely beholden to giant energy conglomerates, poses great dangers to the planet and mankind's survival.

However, the crisis in California is man-made in another, critical sense. Since the state's founding in 1850, water policy has never been carried out in a rational, scientific or democratic fashion, but rather subordinated to powerful corporate interests, including agribusiness, real estate, and increasingly the financial aristocracy.

In addition, the state's infrastructure has long been allowed to decay. The construction of more efficient and sustainable water and sewerage systems has been delayed or canceled due to decades of funding cuts at the federal, state and local level and the funneling of public resources to corporations in the form of tax cuts and other incentives.

The American Society of Civil Engineers estimates that over the next 20 years California's drinking water infrastructure will require \$44.5 billion in investment, while the state's wastewater infrastructure will demand \$22.9 billion to remain functional. With the state budget being continually slashed, politicians have claimed the only way to fund these immense projects is through so-called public-private partnerships (PPPs).

California is one of several states in the US where ballot measures are not required to sell water and sanitation systems to private developers. There is little doubt that the water crisis will be used to accelerate the privatization of water systems and the hiking up of prices to "market rates."

A brief look at the history of California shows the current drive toward privatization is far from an aberration. Rather, it flows directly from the logic of capitalist development and the domination of the US economy by financial parasitism. The result of this process is to deny an ever-larger portion of humanity of the basic right to clean water.

**The historical subservience of California's water to private profit interests**

After the US takeover of California (after the end of the Mexican-American War in 1848) the state's water resources underwent significant alterations, ignited by the Gold Rush. As the state's population grew and gold mining increasingly polluted water systems with mine tailings, various court rulings restricted mining in favor of agricultural and commercial development.

As Los Angeles grew rapidly at the turn of the century, the city exhausted its local water sources, and in 1906 was granted permission by the administration of Theodore Roosevelt to divert water from the Owens River Valley 223 miles south to a newly-formed reservoir in the San Fernando Valley, a less populated region northwest of Los Angeles.

Through backroom meetings between Mayor Fred Eaton and some of LA's leading capitalists, including *Los Angeles Times* owner Harrison Gray Otis and railroad magnate Henry Huntington, the water was initially diverted to the San Fernando Valley to bolster real estate speculation, irrigate vast new acreage of farmland, and boost the profits of this select group.

Despite local protests, sabotage attempts, four decades of water depletion and substantial environmental damage, the same process was replicated with the draining of the Mono Basin starting in 1941.

An equally tortuous process unfolded in San Francisco, where it took 30 years to divert water from the Tuolumne River. Naturalist John Muir waged a 10-year struggle against the destruction of the Hetch Hetchy Valley, which he lost to President Woodrow Wilson, who signed the Raker Act to permit dam construction in 1913.

Despite Section 6 of the Raker Act outlawing the sale of any electrical power generated from the dam "to any corporation or individual," most of the generated power was sold to utilities monopoly Pacific Gas and Electric (PG&E), headquartered in San Francisco. By 1948, San Francisco was selling upwards of 5 million kilowatt hours each year to PG&E, which in turn profited handsomely by selling the power back to San Franciscans at over four times their purchasing price, an illegal form of arbitrage that continues to this day.

The Great Depression crippled the state's economy, prompting another request for federal intervention. The 1933 Central Valley Project (CVP) became the largest water purveyor in California, mostly to irrigate the agricultural Central Valley. The project wrought disastrous environmental and historical consequences: salmon and other fish populations dramatically declined, entire river environments were obliterated, and more than half of the Central Valley's freshwater wetland was lost, while Native American archaeological sites now lie under CVP reservoirs.

The State Water Project (SWP), the most expensive public works project in California's history, was launched by Governor Pat Brown—father of current Governor Jerry Brown—in 1960 and billed as a patch for the CVP's shortcomings. While serving 23 million people, the project failed to fulfill Brown's promises that water would be cheap and abundant, with exception given to the Central Valley agricultural monopolies by that time dominating water politics in the state. Today

agribusinesses pay less than a tenth of what urban dwellers pay for the same water.

Both the CVP and the SWP laid the basis for a major concentration of capital. Eschewing the CVP's nominal safeguards aimed at limiting per-land acreage, a small group of large landowners consolidated their grip, laying the foundation for the expansion of agribusiness.

### **The Monterey Amendments: a backroom deal creates water markets**

Major droughts between 1987 and 1992, as well as in 1994, triggered the so-called "Urban Preference," a safeguard measure that was built into the SWP contracts to ensure water for people even if it cost sacrificing farmland. This prompted the Kern County Water Agency, representative of its county's corporate farmers and one of 29 SWP contractors, to call for a closed-door meeting in Monterey, California with other contractors and the Department of Water Resources (DWR).

Central Coast Water Authority's lawyer Stan Hatch, four other SWP contractors and Bill Phillamore, representative of billionaires Stewart and Linda Resnick's Paramount Farms, participated, serving some of the state's most powerful real estate and corporate interests.

The resulting agreement, the Monterey Amendments, effectively restructured the contracts regulating SWP water allocation, while removing the Urban Preference provision that restrained agribusiness in times of drought. Most notably, contractors would be allowed to buy and sell entitlements to nonexistent water, deemed "paper water," for the enormous 2.2 million acre-feet of water the SWP had failed to deliver.

The "paper water" principle is similar to financial derivatives, as paper water can be traded without the need for any tangible collateral. Real estate speculators saw this as a true chimera, enabling them to build virtually anywhere, regardless of the presence of water.

Once such projects are complete, the real estate developer redeems its paper water, thereby requiring the state to deliver water of dubious quality. In turn, the state buys water rights from small farmers or, in the event of a drought, reduces the population's consumption allowance in order to fulfill the entitlement. The state-subsidized paper water trading system provided a steroid injection to California's real estate boom that culminated in the 2008 crash.

Another crucial component of the Monterey Amendments was the creation of a mechanism that effectively privatized a substantial portion of the state's water through the legalization of "water banks."

During the drought years in the early 1990s, the DWR created a Drought Water Bank, an immense belowground reservoir, which would buy water from contractors willing to sell while selling to those with high demands.

The year of the infamous meeting in Monterey, DWR relinquished majority control over the 326-billion-gallon capacity Kern Water Bank to the Resnicks' Westside Mutual Water Company.

Today, the San Joaquin Valley alone is believed to have at least a dozen water banks, public and private, holding a total volume of water valued at billions of dollars. One of the principal profit-making ventures of these water banks is a twisted form of arbitrage, whereby the water banks are provided subsidized water by the state for an average of \$30 per acre foot, which they sell back to the state at inflated prices upwards of \$200 per acre foot, so that the state can comply with the Endangered Species Act.

In the 30 years of their "farming" career, the Resnicks have paid more than \$4 million to both big business parties. After donating \$350,000 to former Governor Gray Davis' anti-recall campaign, Stewart Resnick sat as co-chairman on Davis' water and agriculture advisory committee.

They enjoy particularly strong ties to longtime California Senator Diane Feinstein, current Governor Brown, and former Governor Arnold

Schwarzenegger, who has referred to them as "some of my dearest, dearest friends."

The Resnicks' back-room negotiations enabled the growth of their nut empire over the course of the 1990s and 2000s, so that today Paramount dominates the almond and pistachio markets internationally. In the past five years, amid devastating drought conditions, almond orchard acreage has doubled in the state, largely in the semi-arid southeastern part of the Central Valley, where it takes roughly twice as much water to grow almonds as in the north.

The Westlands Water District, home to most of these new orchards, has pumped over one-million acre feet of groundwater in the past two years alone, more than the combined annual water usage of Los Angeles, San Diego and San Francisco.

### **The international water crisis**

The water crisis facing California is fundamentally an international issue. At present, roughly a quarter of the world's population lacks access to clean drinking water, while an estimated 2.5 billion do not have access to adequate sanitation. Polluted water is the number one cause of death in the world, as more people die from waterborne diseases—such as cholera, typhoid fever and dysentery—than from all forms of violence, including war, combined.

With the onset of climate change in recent decades and in response to the 2008 economic crisis, there has been a concerted push by national governments and international institutions such as the World Bank and International Monetary Fund (IMF) to utilize this ever-expanding humanitarian crisis to facilitate the private acquisition of water resources, most often through PPPs.

Emerging from the 2008 crash, federal, state and city budgets across the US and internationally were slashed. In the US, the bankruptcy of Detroit served as the model by which this crisis is being utilized to privatize public assets, including water infrastructure. This was followed by mass water shutoffs, a process also seen in Baltimore.

In the 19th century, private water companies held near-monopoly status as water providers across Europe and the US, with water quality entirely subordinated to the profit motive. Repeated outbreaks of cholera and typhoid fever finally prompted state intervention, so that by 1900 roughly 53 percent of water services in the US were publicly controlled.

Today, 90 percent of the US population is served by public water supply systems. It is estimated that by 2025, 21 percent of the world's population, and 39 percent of Americans, will receive water from private water companies.

The immense damage being wrought by California's ongoing drought stems from almost two centuries of an irrational water rights regime, and the uninterrupted subordination of this fundamental resource to the profit interests of a handful of capitalists.

In opposition to the IMF, World Bank and every capitalist institution, the Socialist Equality Party alone asserts that access to clean and free water is a basic social right. To secure this right requires breaking the grip of the financial aristocracy, nationalizing the major agribusinesses and energy corporations, and transferring trillions of dollars from the military and other socially destructive purposes to finance a massive public works program to repair and construct state of the art infrastructure.

The rational organization of economic life and equal distribution of crucial resources will only be possible when the working class takes political power and abolishes the rule of the financial aristocracy.



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