

the presence of some low-income students in school; indeed, administrators have reported that students benefit from exposure to racial and economic diversity. On the 2006 High School End of Course exams, 60.5 percent of low-income students in Wake County passed, compared with 43 percent in comparably sized Durham County; meanwhile, 85.4 percent of Wake's middle-class students passed, compared with 67.9 percent in Durham.

Districts like Wake County emphasize economic integration rather than racial integration in part because using economic status avoids the legal problems associated with using race, and in part because of the overwhelming research showing that black kids don't learn more sitting next to whites, but rather poor kids do better in middle-class environments. To be sure, pursuing economic integration is politically tricky for school districts, but the federal government could play an important supporting role. Under the No Child Left Behind Act, students trapped in failing schools are given the right to attend better-performing public schools, and that right could be extended to include transferring across school district lines. Former senator and presidential candidate John Edwards has proposed a creative way to encourage this movement: provide financial incentives for suburban middle-class schools to accept low-income students, and at the same time increase magnet-school funding to draw middle-class students into excellent urban magnet schools.

If the ultimate goal of a school system is to produce high-performing students, then economic integration is a clearly superior option. Rather than trying to make high-poverty schools work against all odds, we should eliminate high-poverty schools altogether and strike at the fountainhead of educational inequality. ▀

Tradable Water Rights

Michael Greenstone

Unnoticed by many Americans, the country is facing a water crisis. The Southeast went through a record-breaking shortage this summer. The West is facing its worst drought in a century, and climate change will likely further deplete the water supply. At the same time, people are moving to Western states in droves: Census projections indicate that the population

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in the Western states that draw water from the Colorado River basin (Arizona, California, Colorado, Nevada, New Mexico, Utah, and Wyoming) will increase by 47 percent between 2000 and 2030.

To make things worse, the current distribution system in the West means that water doesn't end up in the hands of those who value it most. Agriculture uses about four-fifths of the water in the West, leaving just 20 percent for the region's fast-growing cities. And yet water is far more valuable to towns and cities. One 1992 Texas study reports that the value of water in agricultural uses ranges from \$300 to \$2,300 per acre-foot, compared to \$6,500 to \$21,000 per acre-foot in urban uses. Clearly, water must be treated like other scarce resources. In practice, this requires a system that redirects water from individuals who don't value it highly to those who do. In other words, we need a market for water rights.

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Consider the case where an extra acre-foot of water would increase a farmer's profits by \$500, but it is worth \$8,000 to a growing city. Without a market, the farmer would use all of the water on agriculture. However, a market would allow the farmer to trade water to the city for money. At any price between \$500 and \$8,000,

both would benefit. Yet under the current system, many beneficial trades do not occur, because there are only limited regional markets (such as the Colorado-Big Thompson Project and the emergency California Water Bank). In most of the West, working markets do not even exist. That's why the federal government should establish a comprehensive water market.

There are three concrete steps that can be taken. First, the restrictions that prevent the trading of water rights across state lines should be removed. The median price for a one-year lease of an acre-foot of water in Colorado is 10 times the median price in Utah. Additionally, as much as possible, other restrictions on trades and the requirement that all trades be reviewed by bureaucrats should be removed.

Second, property rights for water must be clarified. The practice of usufruct rights, in which the state holds all water "in the public trust," with the ability to retract or reassign rights, should be eliminated. The uncertainty caused by these policies prevents beneficial investments from being made. Differences in property-rights rules across states further complicate matters. So that purchasers know exactly what the rights entitle them to, water rights should be standardized across the West (or even the whole country)—perhaps by having

the federal government purchase the existing poorly defined property rights and auction off the new ones.

Third, federal and/or state governments can reduce transaction costs in several ways. They could, for example, set up a monitoring system to determine withdrawals from the Colorado River and other important water sources. Moreover, the government could help fund a centralized market for trades if one doesn't develop in the private market naturally. Finally, government involvement would likely be necessary to construct water transportation systems that aid trading or to clear the legal hurdles to developing these systems.

There may be legitimate concerns about equity in such a market system. Why are farmers presumed to have more rights to water than cities? As farmers will be in the position to sell water rights already granted to them, they would be well taken care of. But what about poor cities? In response, the federal government should go further and establish a population-based water minimum that is distributed to every city. As with individuals, cities could trade their allocation if their citizens decided they would rather have the income from water rights than live in those cities.

There are clear gains from having an active market in water rights. It would help solve the problems posed by current water shortages in the West, and it would provide the flexibility necessary to confront the impact of climate change on water supplies in the coming decades. It would be, in a word, fluid. ▀

Home Guard

Lawrence Korb

The National Guard's primary task is responding to natural or manmade disasters that strike the homeland. Yet, when Hurricane Katrina struck in the summer of 2005, the combat brigades of Louisiana and Mississippi, along with their equipment, were in Iraq and Afghanistan. Countless lives were lost before the Bush Administration could scramble Guard units from other states and active-duty soldiers in the Gulf region. This situation was repeated in 2007 when tornados struck Kansas and fires engulfed Southern California. Put bluntly, the members of the Guard cannot protect us here while fighting over there.

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