

Water Trading Is the Only Way to Go

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August 8, 2006 12:00 am | *Australian Financial Review*

Environmental alarmists have been crying wolf about water wars for years but, like many green exaggerations, they have a kernel of truth. Fresh water is being overused and polluted in many parts of the world. Aquifers, like those in Beijing, will last only another two or three decades; perennial rivers in many places are now often running dry at least during some parts of the year. In short, we have a problem.



There is enough water, but it is being used inefficiently almost everywhere and at current rates it will run out soon—unless the Australian experience is heeded.

There is a ready solution to water shortages in which Australia is a leader: agricultural water trading. Human access to drinking water and sanitation is the most important water use, but 70 per cent of total Residentfresh water is used in agriculture, with vastly more wasted, than in any Fellowother allocation. Improving agricultural water allocation would allow Roger Batemore to be devoted to the poor in the most arid regions of the world.

In countries where rights have been defined and traded, water for the rural poor has increased in volume and lowered in price. Australia's trading system along the Murray Darling Basin is the most sophisticated and effective example of water trading and could be adapted to improve the lives of huge numbers of people around the world. Aside from making economic sense, there is also a moral imperative for such a reform: better quality water reduces disease and death.

China's surface water is rapidly depleting and, according to the Rand Corporation, water shortages could indefinitely lower annual growth by as much as 2 per cent.

India's quasi-legal water rights trading system is valued at more than \$US1 billion (\$1.3 billion) a year.

While this is improving agricultural output, it is also leading to even faster aquifer depletion than in China.

China needs to adopt individual and communal water rights, and India should legalise its own system, in order to prevent an ecological and health-related

disaster in the coming decades.

The main water allocation problem is the result of imitating Soviet-style management of agricultural water. In India, for example, the lack of title over land, and especially over water, is the central reason for misallocation of water, which causes crops to fail and the poor to have no potable water or sanitation. Allowing individual property rights over water is needed but unlikely to come soon. As a former civil servant puts it: “The administration only takes decisions that benefit administrators.”

The corporate rent-seekers want more funding for new delivery systems (dams, canals, aqueducts etc), but it's the institutional structures that need attention. Legalising farmers' trading of their de facto water rights would be a start. An Indian water study funded by the World Bank in the late 1990s found that an astonishing amount of trading was taking the place of farmers' water allocations. The estimate—inevitably speculative given that trading is illegal—was that the value created was over \$US1 billion a year.

Given the majority of water is used in farming in India (China and the rest of the developing world use similar amounts), establishing tenure is the most important policy action the government could take.

In China, water property rights allocation is also unlikely to happen anytime soon and, in the absence of such free-market solutions, China's rapid development will bring the nation to the brink of ecological disaster. Pan Yue, Vice-Minister of the State Environmental Protection Agency, addressed the problem in 2004: “China's population resources and environment have reached the limits of their capacity to cope. If we continue on this path of traditional industrial civilisation, there is no chance that we will have sustainable development.” Yet little has changed in the past two years.

This problem cannot be solved until local people, especially farmers, own their water and trade usage rights. Following Australia's lead in water trading would ensure more efficient farm production, and lead to less water waste. Over the long term, ownership rights can empower people and lead to political pressure for further change.

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