

Australia's Water Works

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As much of Asia struggles with water shortages, Australia's agricultural sector is thriving, despite its worst drought in decades. The secret of the success down under: a free-market system of water trading rights.



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Australia's situation stands in stark contrast to many parts of Asia, where Soviet-style systems of water allocation still prevail. In India, Cambodia, Burma--and to a lesser extent, Nepal--governments use quotas to decide which farmers receive water, and then dictate how and when they can use it. Since farming accounts for more than 90% of water use in those countries, the water supply is effectively dictated by central planning.

Under such a system, there's no incentive to conserve water; quite the reverse. Like bureaucratic politics, if the favored farmers don't use their quota, they lose it. And once allocations are made, they're rarely altered, even when massive changes in agriculture, industry, mining, domestic and rural demand occur. As a result, farmers across the region can afford to waste huge amounts of water, because they often pay one hundred times less for the commodity than domestic users.

The poor overwhelmingly suffer most. Thousands across Asia have starved due to drought. In 2004 alone, the Indian government acknowledged at least 500 suicides linked to lack of water. Discouragingly, there's little money to invest in improving water supplies in a region where half the population lack functioning sanitation facilities, many urban areas possess open sewers, and hundreds of millions lack access to safe drinking water. These conditions alone are responsible for the death of more than two million children across Asia every year, through dysentery and other deadly water-borne diseases.

Contrast that with the situation in countries such as Australia, which have introduced water-trading rights. The benefits are immediate: Since farmers have rights to a fixed supply of water in advance, they can sell off any excess water they don't need, instead of simply wasting it. That increases their profits, while allowing others--be they farmers, municipalities, mines or even green groups "retiring" rights--to use this excess allocation more efficiently.

Other countries such as Chile have done likewise, and seen water access for the rural poor increase in volume while domestic water prices fall. With water valued properly, all users--agricultural, industrial and domestic--are in a position to demand infrastructural improvements that increase the reliability and quality of their supply. The user fees charged on water right holders contribute to maintenance and capital costs, so helping fund safer and more reliable water systems. Dam construction in South Africa (which started trading water in 1994) and Chile has even slowed alongside declining water demand.

Australia pioneered water trading over two decades ago, with local sales between neighboring farmers in the early 1980s. Today, Australia's trading platform is highly sophisticated and efficient, with many farmers trading water over the Internet. Water trading has led to a reduction in low value activities like cereal production, and a resulting increase in agricultural productivity.

Even better, the practice promotes smarter, more competitive agricultural sectors. When an Australian farmer decides to leave the business, he can do so with the sale of a valuable water asset, allowing better capitalized competitors to flourish and choose crops more suited to the climate. In many cases, Australian farmers have even sold their spare water to local municipalities, helping to reduce local water shortages.

Farmers instinctively understand the benefits of free market trading systems. In India, where trading water rights is not officially allowed, some farmers nonetheless do so illegally to evade the distortions of the state-controlled system. The World Bank estimates illegal water trading adds \$1 billion in savings to the Indian economy annually. That figure would undoubtedly be far higher if this activity were legalized. And someday, it might be: economic advisers to Prime Minister

Manmohan Singh have discussed legalizing the practice, but they face intense opposition from Communist members of the PM's coalition.

China, too, is facing a looming water crisis. Due to burgeoning agricultural development and governmental controls, the mainland's surface water supply is rapidly depleting. At current rates, the water source under Beijing may be exhausted within the two decades. In 2004, the Rand Corporation estimated that water shortages could indefinitely lower annual growth in China by as much as 2%. And the World Bank has been trying for several years to persuade Beijing to consider introducing a system of water-trading rights.

In China and India, political obstacles make legal water trading unlikely in the short term. But in an era of increasing water shortages, it is the only realistic way forward in the long run. Free markets allow individuals to adapt to changing conditions, be they man-made or natural. And, as Australia's current experience has shown, such flexibility is dearly needed.

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