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On the Marketisation of Water: Evidence from the Murray-Darling Basin, Australia

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Description / Abstract

Policy makers will increasingly have to turn to water demand management in the future to respond to greater water scarcity. Water markets have long been promoted as one of the most efficient ways to reallocate water by economists, but have also been subject to much criticism due to their possible social, economic and environmental impacts. We engage with common critical perceptions of water markets by presenting first-hand evidence of their effects in the Murray-Darling Basin (MDB), Australia. Water markets in the MDB, as developed within an appropriate institutional framework and coupled with comprehensive water planning, have: (1) helped deliver improved environmental outcomes; (2) assisted irrigators' adaptation responses to climate risks, such as drought; (3) increased the gross valued added of farming; and (4) been regulated in ways to meet social goals. If water markets are embedded within fair and effective meta-governance and property right structures, the potential exists for marketisation to increase efficiency, promote fairness in terms of initial water allocations, and to improve environmental outcomes.

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