

The pros and cons of trading water: A case study in Australia

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Water is a commodity, and water rights can be freely traded in an open market. Proponents of the free market approach argue that it leads to the most efficient allocation of water resources, as it would for any other commodity. However, unlike some commodities, water is critical for human life, for many human activities, and for environmental resources. When such an essential commodity becomes scarce, as frequently happens in Australia, a land prone to sudden and dramatic droughts, severe problems can occur quickly. In Australia's Murray Darling Basin, the country's largest agricultural region, the government had historically controlled the distribution of water rights. However, under these controls, a selected few controlled a large share of the water. To resolve this problem of overallocation, a free market approach was put in place in the early 1990s.

Cruse et al. summarize the advantages and possible pitfalls of the free market approach in the [Murray Darling Basin](#). They suggest that making water rights available in an open market generally had positive outcomes for the region; the approach released the state controls, which allocated water inefficiently, and created a situation in which supply and demand dictate price, and farmers seem to respond efficiently.

However, the authors note that the free market approach could lead to speculation, in which some people who have little practical use for water rights hoard them to drive up the price, leaving less water available for others who might need it. In conclusion, the authors advocate the free market-based approach but caution that such a system also has the

potential to create economic, social, environmental, and ecological problems.

More information: Enhancing agrienvironmental outcomes: Market-based approaches to water in Australia's Murray-Darling Basin *Water Resources Research*, [doi:10.1029/2012WR012140](https://doi.org/10.1029/2012WR012140), 2012
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