

Workshop
'Water markets',
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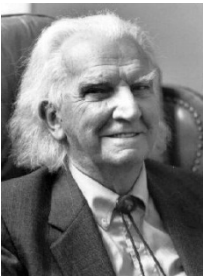
**A critical
perspective on water
markets**

**Market *versus*
Common pool
resources**

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Introduction

- The economic status of water has been a topic of hot debates for centuries
- Some consider that water cannot be the subject of market exchanges (Boulding, 1980): *The perception of water as a symbol of ritual purity exempts it to a certain extent from the dirty rationalities of the market*
- Others assume that market transactions will improve water use efficiency (Anderson, 1983): *At higher prices people tend to consume less of a commodity and search for alternative means of achieving their desired ends. Water is no exception.*



Introduction

- However, there are a lot of ambiguities, misunderstandings and ideological aspects in these positions.
- The aim of this talk is to stress these elements and to discuss the strenghts and weaknesses of such a debate

Ambiguities

- The Dublin statement (1992) recognizes that sustainable water management must:
 - Be based on stakeholders participation
 - Recognize water as an economic good
- The Water Framework Directive recognizes that: "*water is not a commercial product like any other but, rather, a heritage which must be protected, defended and treated as such*" (EC 2000, p. 1)
- The IWRM framework is based on the same ambiguities

An ideological struggle

- Struggle between the proponents of a « free market environmentalism » and the ones who claim to recognize water as a « common good »
- However, this ideological struggle is not theoretically grounded because:
 - A water market is not a market
 - CPR management is compatible with water marketing.

A water market is not a market

In his seminal article, Dales (1968, p. 803-804) wrote: "*It should be noted, finally, that the market in pollution right is not a 'true' or 'natural' market. In natural markets, price creates two-way communication between sources of supply and demand and affects amounts supplied as well as amounts demanded [...] My market provides only one-way communication. It transmits the government-owner's decisions about the use of water to the users of the asset, but there is no feedback from the users to the owner [...] The price signals that this government gets from the market are 'false', in the sense that they are largely echoes of its own arbitrary decision about the supply of rights. The market proposed in this paper is **therefore nothing more than an administrative tool**.*"

CPR management is compatible with water marketing

- Self-governance of common-pool resources (according to the 'Bloomington school' approach) does not mean necessarily the absence of water rights exchanges - at least informal exchanges.

A distinction based on governance systems

- It is necessary to build a more fundamental distinction based on the difference between a market-based governance system and an heritage-based governance system.
- It is a political choice to identify which governance system works better (from the point of view of efficiency AND intra and intergenerational equity).

Efficiency and/or equity ?

- Proponents of water markets generally stress the efficiency of this instrument, but a lot of transaction costs can occur, which can have an impact on the efficiency of the instrument.
- Proponents of multi-stakeholders governance platforms generally stress the implications in terms of equity of these processes. But power relationships, lack of information and the difficulties to enforce the rules commonly decided by the participants, are, among other things, obstacles to an equitable (re)distribution of water resources.

Perspectives

- The instruments designed in the French water management system are close to the second option.
 - They are not really efficient
 - Are they really equitable?
- However, are water markets really more efficient? (What is the magnitude of transaction costs?) Is the distribution of property rights derived from water markets transactions equitable?