



Talk is cheap, or is it? The cost of consulting about uncertain reallocation of water in the Murray–Darling Basin, Australia

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ABSTRACT

In this paper we reflect on the challenge of reallocating water resources from agricultural interests to environmental uses. The area of interest is the Murray–Darling Basin, Australia, although the evidence presented provides salient lessons for a range of settings. We draw on the transaction cost literature where the tasks of re-designing and using institutions can help conceptualise the costs associated with policy change. A framework for improving ex ante assessment of transaction costs and its relationship to transformation or abatement costs is elaborated, especially as it relates to community consultation exercises. Against the background of the water reforms of the past three decades we conclude that policy makers and administrators could limit increases in transformation costs and contain transaction costs by giving greater attention to the form of community consultation, by taking account of the sources of uncertainty that attend policy choices and recognising the potential for consultation fatigue.

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1. Introduction

In many developed nations, increased preference for environmental amenity accompanied by the relative shift in the importance of agriculture creates controversy over modifying the allocation of resources (see, for example, Crase et al., 2011a). This is especially the case for water in places like the Murray–Darling Basin (MDB), Australia, where the resource has historically been used as a vehicle for promoting agricultural development in rural and regional areas. In the present case there is also evidence that the extent of these controversies has been expanded by the uncertainty that attends the ecological responses to differing water allocations (Crase et al., 2011b). Against the background of these uncertainties and given that the MDB has amongst the most developed water markets in the world, it could be argued that water markets present as one logical mechanism for bringing about a reallocation in favour of the environment. For example, markets could be used to iteratively assemble water resources and allow environmental managers to experiment and demonstrate the case for more (less) water as the need arose. However, this has not been the case. Rather, extensive planning and community consultation around legislative instruments have become prominent features of the reform process, accompanied by decisions to publicly fund irrigation infrastructure.

Given that these policy actions were taken alongside direct market transactions with willing sellers, the MDB provides a useful case for considering the costs of alternative policy and administrative actions. Moreover, these events afford the opportunity to refine and test earlier theoretical work that deals with the transaction costs of policy change (e.g. Challen, 2000; McCann et al., 2005), the rational choice of consultation (Crase et al., 2005) and public participation processes (Ross et al., 2002).

This paper is used to reflect on the difficulties associated with reallocating water resources to environmental uses in the MDB, Australia. We briefly trace the water reforms of the past three decades with particular emphasis on the role of community consultation. The aim is to offer an approach for bringing together different strands of literature that focus on the role of community consultation, transaction costs and transformation costs. We also develop preliminary estimates of the magnitude of costs that attend the current adjustment processes.

The paper comprises five additional parts. In Section Two we attempt to harmonise selective elements of the literature relating to community consultation, rational choice and transaction costs. Whilst this is not a comprehensive review, the output provides the analytical lens for subsequent discussion of policy reforms. Section Three provides an overview of the policy reforms in Australia's MDB, an area comprising over 1 million square kilometres and accounting for about 40% of the agricultural production of the nation. The emphasis in this section is on the efforts by policy makers to reduce water extractions by agriculturalists and to increase the portion of water devoted to supporting natural riverine environments, even though

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the outcomes from that reallocation are uncertain. The section deals primarily with reforms prior to 2007. Section Four is used to focus on the more recent policy reform episodes, with special attention given to the controversial MDB Plan. Here we use the transaction costs framework developed in Section Two to offer preliminary insights relating to the costs of consultation. The final substantive section comprises commentary on policy lessons before offering some brief concluding remarks.

2. Community Consultation, Rational Choice and Transaction Costs

In the context of natural resource management, it has frequently been argued that involvement of the citizenry in the decision making process is a prerequisite to success (e.g. Colfer, 2005; Zerner, 2000). In addition to the observations by Munroe-Clarke (1992), Holland (2002) and others that community participation can enhance social justice and raise the legitimacy of public policy decisions generally, a body of literature has emerged around the efficacy of involving community participation for policy making with complex natural resources (see, for instance, Marshall et al., 1993).

Arnstein's (1969) seminal work on public participation proposed a hierarchy for conceptualising the degree of power-sharing between community and planners. Her eight-fold typology ranged from tokenism at one end to citizen control at the other. This approach potentially offers a useful way for policy makers and practitioners to conceptualise different participation processes and then map desired outcomes against the form of participation. Nonetheless, there is also evidence that over-use of participation by public agencies is common, along with an inclination to presume that higher-order participation is generally preferable to lower-order forms (Wondollock et al., 1996).

Recognising the limits of laddering frameworks and the potential simplification that 'more is always better', Ross et al. (2002) developed a sophisticated typology based on public participation processes in natural resource management in Australia. An important component of the Ross et al. (2002, p. 206) typology is that it recognises the potential for public participation to be ordered along several different dimensions. In this instance the typology was based on differences in *agency* "to recognize which party or parties carry the initiative in participatory NRM processes"; *tenure* to capture the "nature of the parties' control over the resources"; *nature of participants* to take account of whether parties involved are organized groups or otherwise and "the histories of trust or antagonism that may have been built up in previous interactions"; *task* with examples including "planning or on-going management, strategic decisions or on-ground works", and; *duration* which includes contemplation of whether "succession or burnout needs to be considered". The categories distilled from this approach have "room for considerable variation within each type" and an option for "effective processes [that] can mix the types successfully" (Ross et al., 2002, p. 207).

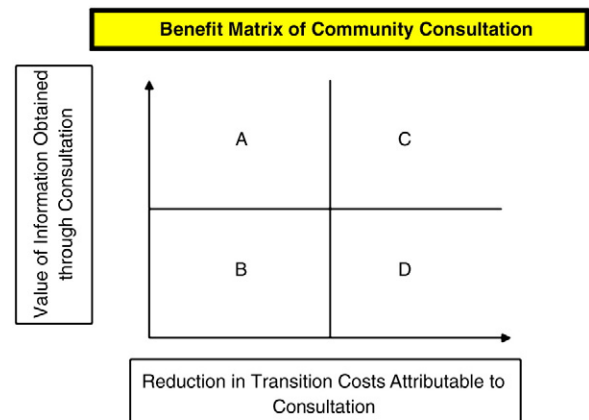
Amongst the types of public participation identified by Ross et al. (2002, p. 215) is 'consultation', where the initiating agent "encourages two-way communication and is willing to shape the eventual decision according to public input". Nonetheless, the decision-making power resides with the initiating party and it is thus preferable that it is clear at the start what can and cannot be modified by the consultation process. The risks associated with consultation, according to Ross et al. (2002, p. 216), include the prospect of "consultation burnout"; its capacity to "raise unreasonable expectations"; the possibility that the most powerful stakeholders shape the issues thereby limiting input from less powerful (or organized) stakeholders¹; threats via the abuse of

power generally; limitation to the amount of learning and skill transfer, and; the fact that it is often chosen without contemplating more effective forms of engagement. An important general observation from Ross et al. (2002, p. 206) is that types of public engagement should be selected on the basis of which processes are "best suited to the situation", implying at least some consideration of cost against the benefits. In this regard Crase et al. (2005) presented a simplified cost-benefit framework for disaggregating the usefulness of community consultation as part of making policy choices, particularly in the context of water re-allocation in Australia. A diagrammatic representation of this framework is reproduced for convenience and appears as Fig. 1, below.

Under the rational choice framework, benefits accrue from consulting with community members if this results in information being made available, at comparatively low cost, which improves the policy choice itself. For example, farmers may have additional knowledge of local hydrology when compared to state-held incomplete data sets. The second form of benefit deals with the political dimensions of reform. In this case, it is assumed that individuals potentially disadvantaged by a reallocation decision will be motivated to mobilize resources to make the change more difficult, in the hope of staving off reform. The benefits of consultation in this case arise from the prospect of disaffected parties being cognisant of the global benefits of the decisions, and thus acquiescing to the reform.

An important contribution of Crase et al. (2005) was the observation that there were organisational costs associated with attempting to realise these benefits. As a minimum, these came in the form of agencies having to reconfigure technical information in order to make it accessible to a wider community and the costs of physically dealing with the public at large. In the case of the latter, it was observed that for some bureaucracies, especially those in the water sector, their technocratic status made this a particularly confronting task with non-trivial personnel costs.

If we accept this rational choice framework, and make the heroic assumption that public agencies are not acting in their narrow self-interest, we might then conclude that agencies would not knowingly undertake a community consultation for which the benefits were likely to fall well short of the costs. In the case of a policy choice where the benefits were expected to fall into quadrant B, for instance, the costs would need to be modest to warrant a consultation phase. In contrast, where a choice problem is characterised by benefits in quadrant C, the agency could safely carry substantial costs and still warrant the consultation exercise. Whilst this approach has some appeal and offers a short-cut means of ex ante assessment of consultation alternatives, it also has limitations. First, there are at least some grounds for



Source: Crase, Dollery and Wallis (2005, p. 225)

Fig. 1. Benefit matrix of community consultation. Source: Crase et al. (2005, p. 225).

¹ In a related vein, Olson in the theory of collective action (1965, 1972) notes that any consultation process is subject to capture by smaller and more focussed groups to the detriment of larger and more disparate groups, in the absence of a consultation process specifically designed to address this imbalance.

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