

National Water Reform

(Notes on Productivity Commission Draft Report, September 2017)

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1. It was always going to be difficult for the Productivity Commission to evaluate the National Water Initiative because the NWI has, and always has had, positive and negative features. Given the economy-wide perspective that is the rationale for its own existence, there is also an underlying tension for the PC with a programme like the NWI which was conceived as a way of tackling water-related problems
2. Within the NWI framework, there are examples of generic issues such as structural adjustment and regional problems that apply across the board and are not specific to water. Other institutions and mechanisms exist to deal with these issues. The Draft Report could be stronger in the way it deals with the appropriate boundaries of the NWI, with greater emphasis on the costs and dangers of 'hydraulic exceptionalism'.
3. Furthermore, separating analysis of the NWI from the pervasive effects of the subsequent Murray-Darling Basin Plan, which likewise has positive and negative features, is another challenge. Sometimes, the challenge has been sensibly ignored, such as in the excellent Chapter 5, Environmental management.
4. Nevertheless, the Draft Report is a tad Hamlet without the Prince because the NWI has been overwhelmed by the MDBP so far as water policy in the eastern states is concerned.
5. The best aspect of the Draft Report is its coherent and damning critique of recent reckless government expenditure on irrigation infrastructure, contrary to the intentions of the NWI and accepted principles of public finance and public administration. This finding should be more prominent in the list of Key Points in the Overview. Often, this expenditure was justified by bogus and cynical claims about potential water saving.
6. Unfortunately, a bad example of abuse of process in decisions concerning off-farm infrastructure for the (Victorian) Goulburn Valley is not mentioned in Chapter 7. Rather, Box 7.8 provides detailed commentary on relatively minor excesses like the Paradise Dam in Queensland, Ord Stage 2 and in irrigation latecomer Tasmania. A multi-named Victorian boondoggle now monikered the 'Connections Project' is now staggering towards an expensive conclusion. The project was trickily combined in 2007 with the irrational and costly decision to doubly insure Melbourne's water supply, via construction of a pipeline from the Goulburn River and a jumbo-sized desalination plant.
7. In addition, the dubious rationale for subsidised on-farm investment in irrigation infrastructure could have been given more emphasis in the Draft Report, in terms of both economic efficiency and equity, and stressing that choice of

technique in irrigation depends mainly on inputs other than water, especially labour and energy.

8. Indeed, the existing NWI did not stop these public finance monstrosities. How and why would a NWI Mark 2 avoid such abuses in the future?
9. From the reader's perspective, the worst aspect of the Draft Report is its length made worse by the hundred pages or so of a meandering Appendix B, which is a mixture of the banal, information that has already been covered adequately in the main text, and background information that is peripheral to the overall exercise because it is readily available elsewhere.
10. The Draft Report gets off to a poor start with a boastful claim that Australia 'is viewed internationally as a world leader in water management'. If that were ever true, it is certainly not the case now following the debacle that happened during preparation of the MDBP, the numerous flaws of the MDBP given the limits of planning per se in a situation of so much climatic, scientific and economic uncertainty, and its faltering implementation.
11. It is hardly surprising that Western Australia and the Northern Territory are rebuked by the PC for their tardy performance in implementing some irrigation-related aspects of the NWI. Irrigation is not a big deal in those parts of the country vis-à-vis dryland farming. In fact, WA and Australian dryland farmers have legitimate grievances concerning the emphasis given to the economic and environmental problems of the MDB relative to other parts of Australia.
12. Tangible benefits of the NWI were always more likely for states with plenty of irrigation farming, used to dealing with the shared water resources of the MDB and with a long history of fruitful exchange of information between officials. The situation is analogous to multi-national trade arrangements, whereby agreements between jurisdictions often solve intractable problems within jurisdictions. Arguably, the NWI was important to the rapid success of water trading because understandable resistance to change could be deflected by local officials by appealing to their external obligations.
13. Less persuasive is the case for national cooperation for urban water. There are vast differences between Australian capital and provincial cities in climate, climatic variability, existing water infrastructure, population growth, topography and geography. These cities had the technical, administrative and financial capacity to manage their respective urban water arrangements long before the NWI was dreamed of.
14. The urban water component of the NWI is an example of Canberra overreach, which has encouraged adoption of uniform and costly solutions like desalination plants rather than options tailored to local needs. Urban water management has also been damaged by costly attempts to apply policies suitable for new developments but unsuitable if attempted in built up areas. Local government has fallen into the same trap.
15. Furthermore, the Draft Report is deficient by only mentioning in a line or so at page 168 that public authority dividends are collected from urban water authorities – that is, their customers. Central agencies often turn a blind eye to the machinations of water authorities and their natural monopoly behaviour. It is a rule of bureaucratic life that agencies that collect revenue are given a lot easier time than spending agencies.

16. Parts of the argument surrounding the NWI cannot be settled unambiguously because they depend on the facts and circumstances of individual cases. Contemporary issues of public finance and public administration are at stake, not water policy as such. By way of example, long-term environmental problems will not be tackled properly when grants-based funding is the norm.
17. Environmental policy-making has much in common with economic policy-making; inter alia, public/private responsibilities have to be determined and decisions have to be made with respect to the roles of discretion versus rules. A lot of the time policy choices are determined by empirical judgements, both explicit and implicit. On the latter score, few would quibble with the remarks on page 143 of the Draft Report that imply Ministerial discretion should not be applied to allow environmental water holdings to be diverted to graziers experiencing dry conditions. It would be a different story for many if the discretion was applied in favour of perennial horticulture.
18. Similar ambiguity applies with respect to questions concerning the extent to which environmental management should be devolved to the local level. Sometimes local management will be successful and other times it will not. The catchment is a sensible organising principle for some environmental public goods. This is not the case at other times and locations. The underlying dilemma for local management of environmental problems is that there is a big distance in space and time between the large number of people remote from the action who derive small benefits from successful policies and programmes and the small number of locals who are adversely and substantially affected. Over time, it is likely that local interests will prevail.
19. Put slightly differently, local decision-making may be enhanced or impeded by the existence of a program like the NWI. Consultation is a double-edged sword, admirable if undertaken ethically but not so when consultation means those in positions of influence are wandering about looking for support for their pre-conceived ideas. Whatever the case, inherently tricky decisions about what should happen at the local level are scarcely the right milieu for cashed up Commonwealth officials lacking technical expertise.
20. NWI and similar programmes have had a debilitating effect on environmental agencies. Understanding arcane Commonwealth/state/local funding arrangements and manipulating same is now more important for the prospects of officials than the subject matter knowledge needed for good results in environmental management and water policy.