



Liquid Currency

Though most of us don't flinch at the price of a bottle of Perrier, consumers would be shocked to learn the real cost of water for domestic, industrial, and agricultural uses. But the global water squeeze may force us to appreciate the real value of water, a natural resource more essential than gold, oil, or timber.

While the global supply of water is constant, the supply available for consumption is growing scarce. Kenneth D. Frederick with Resources for the Future says we need to use economic principles in allocating supplies. Water marketing has a promising future. California, for example, has created an emergency water bank that allows farmers to idle land during drought and sell to the expanding urban market. The uncertain future under a global-warming scenario lends a sense of urgency to efforts to encourage voluntary exchanges of water through markets, Frederick says.

Around the world, water supplies are dwindling, in part from contamination by municipal, industrial, and agricultural effluents. In the United States, targeting specific facilities and enforcing regulation of the Clean Water Act of 1972 have proven expensive, and most agricultural sources of pollution, such as large animal feeding op-

erations, have escaped regulation. Suzie Greenhalgh and Paul Faeth with the World Resources Institute say that recent experiments in water quality trading have proven cost-effective.

As we enter an era of market trading, one unsolved mystery is how to integrate the benefits of markets with environmental objectives. Till now, we've gone about environmental protection in the old-fashioned way: throwing money at it, says Dan Tarlock at Chicago-Trent College of Law.

A better model may be underway Down Under. Australia's Murray-Darling River has been severely degraded, especially from salination due to diversions and dams. The Murray-Darling Commission, composed of federal, state, environmental, and private stakeholders, imposes yearly limits, or caps, on diversions from the basin. Under the pilot trading program, diverters must gain the approval of licensing authorities in each state, and all transfers must meet environmental standards. The Murray-Darling experiment proves that long-term environmental goals are consistent with sustainable economic development, Tarlock says.

In the spring of 2000, while Atlanta continued to grapple with a prolonged drought and the state of Georgia turned a thirsty eye north, Tennessee quietly conducted a preemptive strike to protect its waters from interstate raids. In May, the Tennessee legislature

passed a bill to protect its waters from new diversions outside 10 designated water basins. While threats from out of state were part of the rationale for protective legislation, the bill also maintains the integrity of the water basins for planning purposes. David Feldman at the University of Tennessee says that a key bargaining point for the business community was to ensure that permitting costs and economic burdens would be nominal.

Statewide initiatives may be only a thumb in the dike, however. Nationwide, water problems are staggering: flood losses of over \$4 billion annually, wetland losses of 50 percent, pollution from agricultural runoff, and failing water and sewer systems. Oregon's Earl Blumenauer, a congressman from Portland, says certain federal programs, including the national flood insurance program, are costly and counterproductive. Blumenauer has introduced an initiative to build on the success in the transportation sector of the Intermodal Surface Transportation Efficiency Act. A "Water ISTEA" would allow regional rather than local planning, provide flexibility for local communities to decide the kinds of projects that suit their needs, and encourage meaningful citizen participation.

The Editors