

Institutions and economic research: a case of location externalities on agricultural resource allocation in the Kat River basin, South Africa

CN Mbatha¹ & GG Antrobus²

Abstract

The Physical Externality Model is used to illustrate the potential limitations of blindly adopting formal models for economic investigation and explanation in varied geographical contexts. As argued by institutional economists for the last hundred years the practice limits the value and relevance of most general economic inquiry. This model postulates that the geographical location of farmers along a given watercourse, in which water is diverted individually, leads to structural inefficiencies that negatively affect the whole farming community. These effects are felt more severely at downstream sites and lead to a status quo where upstream farmers possess relative economic and political advantages over their counterparts elsewhere. In the study of the Kat River basin these predictions appear to be true only in as far as they relate to legal and political allocations and use of water resources. In terms of lawful uses of land resources aimed at expanding citrus production, the model's predictions are not met. The status quo is however fully explained by the implications of having adopted formal water scheduling rights by upstream farmers as well as other geographical factors. Hence, the case for investigating the effects of important institutions within general economic research is strengthened.

Keywords: Institutions; water allocation; physical externality; Kat River Valley

1. Introduction and orientation

Ronald Coase (1998) reflected on the direction the discipline of economics has taken since Adam Smith as having become the study of blood circulation without a body. "What this comes down to is that economists think of themselves as having a box of tools, but not the subject matter." Many economists, like Coase, charge that the discipline lacks an interrogation of factor coordination in a complex interrelated structure, which is the whole economy (e.g. Eicher, 1999; Evensky, 2004; Hirschman, 1960). This criticism

¹ Lecturer and researcher, PhD, Department of Economics and Economic History, Rhodes University, Grahamstown 6140, South Africa; E-mail: ntlankla.mbatha@gmail.com, tel.: +27 83 670 4287, fax: +27 46 622 5210.

² Professor of Economics, Department of Economics and Economic History, Rhodes University, Grahamstown 6140, South Africa; E-mail: g.antrobus@ru.ac.za