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r1034-90
WORKSHOP IN POLITICAL THEORY
AND POLICY ANALYSIS
513 NORTH PARK
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March 28, 1984

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Political Economy Research Center

Working Paper No. 84-10

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This paper is forthcoming in a Journal of Contemporary Studies symposium issue.

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Proposals to privatize portions of the public lands have been misunderstood and misrepresented by academics, politicians, and some environmentalists. The confusion and ignorance about the new resource economics (NRE), which incorporates concepts about the tragedy of the commons, the role of government, the importance of voluntary association, and the function of property rights, have distorted explanations of the implications of privatization. Our purpose is to provide understanding and to correct misrepresentations by explaining the NRE. We argue that there are firm theoretical and empirical justifications for claiming that private management of many of the lands currently held by the federal government will more efficiently and equitably meet the needs and wants of the American people,

The NRE is firmly rooted in classical economics and builds on theories of Austrian economics, property rights, and public choice. It assumes that individuals act on information and incentives and that institutions generate information and structure incentives. These assumptions allow the NRE analyst to explain the causes of and to suggest the solutions to pollution, depletion of natural resources, extinction of plants and wildlife, and inefficient use of resources,

Underlying Assumptions

The NRE assumes that consumers maximize utility when they exercise private choice in the market. When those consumers become voters, we cannot assume that they have been lobotomized or that they magically shift psychological gears; they remain self-interested. It is also assumed that producers who seek to maximize profits in the private sector will also attempt to maximize market advantage and subsidies in the public sector. Government is not an impartial entity that resolves value conflicts; it is an entity composed of self-interested individuals who are politicians and bureaucrats. Politicians are assumed to maximize votes, not some nebulous concept of the public welfare. Bureaucrats are not efficient computers seeking the public interest, but rather are self-interested, just like politicians, consumers, voters, and producers. They are not a special subset who serve as vestal virgins of the public interest. They want bigger discretionary budgets in order to obtain greater job security, perquisites of office and income, professional satisfaction and prestige. They may also pursue ideological commitments as well. Because individuals are self-interested in both their private and public roles, the incentives created by institutional arrangements are of fundamental importance when analyzing a polity.

Social institutions locate a society on a continuum between anarchy and Leviathan. They are primary determinants of the degree that self-interested individuals will be encouraged to consider the preference of others. The institutions featured in our Constitution are limited government, secure property, personal liberty, individual enterprise, and voluntary association. Some consider it unfortunate that we experienced an American counter-

revolution that was initiated by the progressives and culminated with the various Great Society programs. This counter-revolution was especially significant in the area of natural resources. The NEE relies on the principles of limited government as articulated in the Federalist Papers and combined with modern political economy.

Property Rights and Responsibility

Linking authority with responsibility is the key to capturing social benefits from individual self-interest. As Garrett Hardin pointed out, there is a difference between the word responsibility and the fact of responsibility. He offered Charles Prankel's definition in explanation: "A decision is considered responsible when the man or group that makes it has to answer for it to those who are directly or indirectly affected by it." Responsibility, then, causes people to consider an action's costs and benefits to themselves and to others. When people are responsible they act as if the wants and values of others matter, not just out of benevolence, but also because of the potential gain or loss from ignoring those considerations.

One of the best ways to establish responsibility and to take advantage of self-interest is the establishment and enforcement of transferable private property rights. When a resource is privately owned, the owner typically protects it from misuse in order to keep its value (as measured by himself and others) from falling and attempts to increase its value through wise management. A farmer, for example, pays careful attention to the combination of tilling, fertilizers, and water inputs necessary to sustain the productivity of his or her farmland. When the productive capacity falls, due,

for example, to erosion, the farm decreases in value. Private ownership creates responsibility by providing an information link between action and result

A substantially different result can emerge when people are able to produce and consume without paying the social costs of their actions; that is, when authority is divorced from responsibility, Garrett Hardin's parable of the "tragedy of the commons" is one of the more forceful illustrations.³ He described a pasture for which there were no secure, transferable, or enforceable property rights. On the pasture, or commons, people were not protected from the effects of others' actions. The dilemma is twofold: First, the cost of one user's actions is dispersed among the community of users, and only that user enjoys the benefit—a clear violation of Frankel's definition of responsibility. This activity is known as "free riding."⁴ Since any single individual action has a small impact and the individual share of any ill produced by the action is minimal compared to the personal benefits, the dominant strategy is for users to overexploit unowned resources at the expense of the community. Because benefits are privatized and costs are socialized, there is little incentive to conserve the resource, to use it wisely, or to manage it as if future generations matter. Consider the near extinction of the American bison, the rapid decline of beaver populations in North America, and the over harvest of the great whales.

The second part of the dilemma is not often recognized, possibly because the term "free rider" implies that a deliberate effort has been made to benefit oneself at the expense of others. In many situations there is no sensation of

riding free because there is no personal interaction between those who create costs and those who pay them.⁵ Each individual is simply reacting to the choices presented by the situation. He is not consciously acting against fellow citizens. When people create costs not personally felt, the information link between action and **result** is severed. Information about the wisdom of the action is more difficult to obtain. People who create social costs, therefore, often see only the personal benefits their actions, not the costs imposed on others. Conversely, people whose actions benefit others sometimes do not recognize that benefit and such actions will not be rewarded.

Under these conditions, good intentions easily go astray. Poor decisions do not confront reality checks and wise decisions are not rewarded. Simply being concerned and willing to donate time, effort, and money to resolving perceived problems is inadequate. Good Intentions will not suffice. Without the positive feedback provided by responsibility, people who desire to do good will not know if they are achieving their aims or if their actions are having the intended effects. This is a fundamental problem with bureaucratic management. When the government owns and manages a resource, the linkage between decision and result is made by the bureaucrat's charitable (and sometimes professional instincts of the bureaucrat) and by the pressures of those with political influence.

Creating responsibility where little or none exists does require a form of coercion. Agreements must be enforced, and a way must be found to protect private property from theft—the ultimate free ride. Without enforcement, property rights cannot create responsibility. As Thomas Hobbes' explained "covenants without the sword are but words, and of no power to secure a man at all."⁶

A society of responsible individuals, is one in which people agree to enact laws and to provide means of enforcement in order to achieve the closest possible approximation to the ideal free society. A form of management is called for that links the authority to act with the responsibility for actions taken.

Self-interest and Other-Interest

Emphasizing the benefits of protecting property rights and to enforcing contracts does not negate tendencies to act altruistically with a community in mind. If establishing and maintaining peace depended solely on the force of law and not on such incentives as norms, customs, and a sense of community, it is doubtful that peace would be lasting or that large groups could be moved toward achieving it. Christian, Kantian, and humanist principles are important to the structuring of societies and should not be ignored or obscured by the search for responsibility.

Even allowing for humanitarian virtues (perhaps especially allowing for them), it is not wise to trust in their, as motivating agents, situations when people can avoid costs of their actions. Given the capacity of a very few to render useless the contributions of many, it is foolhardy to expect other-interest to supersede self-interest. Rousseau warned of the dangers of even a single self-seeker in a society of perfectly other-regarding persons and argued that the self-seeker "would certainly get the better of his pious compatriots."⁷

Responsibility and Government

The NRE identifies a legitimate role for government, especially in the areas of natural resources and environmental management. Property rights and contracts must be defined and enforced, there are public goods to be provided, there are common pool resources to be managed where "entrepreneurs have not yet discovered a way for private provision and management. But there is little justification and great danger when government goes beyond these activities.

When government rejects the private property approach, it must choose some form of regulation. In Hardin's commons, an entity, possibly a Pasture Protection Agency, must regulate behavior through a system of permits, fines, and supervision. The agency must decide how many and whose cows can be allowed on the commons, whether sheep and goats should be accommodated, and whether the commons should be opened for some other use, such as recreation. Except in the case of a pure democracy where the median voter rules, regulatory management is "top down."

The major flaw in governmental management is that those people making decisions are separated from the effects of their decisions. When conflicts arise they decide whose values will prevail. They decide which uses are acceptable, and they manage with the financial resources of third parties. Public hearings, elections, public participation processes, and court actions are all ways to curb governmental irresponsibility, but even these tools are often used to provide benefits to one group through the inefficient use of taxpayers' money.

Public lands management has proven to be highly inefficient in terms of providing an economic return to the nation of owners, but it has effectively used the taxpayers' resources to benefit local constituencies. The national forests are a prime example. A 1976 analysis by Marion Clawson indicated that the Forest Service managed a resource worth \$42 billion at a loss consistently in excess of \$2 billion per year.⁸ logging continues to be carried out in forests where the costs of logging exceed the value of the timber logged,

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while causing needless environmental degradation. Thus economic inefficiency is compounded by environmental atrocity. By subsidizing the harvest on these environmentally fragile and uneconomic sites, the Forest Service helps local timber firms stay in business, keeps certain local politicians happy, and most importantly, preserves its saw-timber management budget. None of the politicians, bureaucrats, company executives, or timber workers pay the full costs of their actions, so there is little incentive to use the forest resource or the taxpayers' money more efficiently.

Other federal agencies produce the same kinds of results. In nine of the eleven western states, the federal government spends more on the public lands than it collects, even though the region is prosperous and holds vast mineral, timber, forage, and recreational values. Dams are built using benefit/cost ratios smaller than 1. The process the government uses to study its grazing program for a specific unit commonly costs more than the value of the grazing permits for that unit. A Department of the Interior study of the recreational value of Forest Service and Bureau of Land Management lands found that the recreational value exceeded the entire value of the forage and timber produced on the land. This strongly implies that the lands are managed for the wrong mix of joint products. These perverse results are the predictable

consequences of management by policy makers and bureaucrats who are insulated and buffered from the results of their decisions.

As should be clear, the NRE analyst would not necessarily predict overuse, but misuse. When managers are irresponsible, as they must be in government, appropriate use will occur only by serendipity. Certainly those wilderness lands that contain high quality deposits of minerals are not being overused.

One of the most consistent findings in the area of resources policy is that public management occurs without regard for internalized costs and benefits at the margin. What does matter is the distribution of these costs and benefits. Marion Clawson's characterization of multiple use management as "a little of everything everywhere, regardless of costs and results" supports this conclusion.¹⁰ Management questions 'becomes political questions of who receives how much of the benefits and who incurs how much of the costs. Given that in all societies wealth and political power are positively related, the relatively wealthy are commonly subsidizing. This process is not likely to change until the public lands are removed from a system -in which everyone chooses for everyone else and everyone spends ironies belonging to others on still others.

To the NRE analyst, the governmental management of resources is highly suspect; and as the examples cited above indicate, there are good empirical and theoretical reasons for the suspicion.'. Continued political management of the public lands means continued reliance on individual voters who find it rational to remain ignorant on most issues, since one vote has an insignificant impact on the outcome,¹¹ Although politicians, bureaucrats, and

producers are informed about specific issues, they will find it rational, and perhaps even necessary for success in the highly competitive political arena to suppress and distort information.

Even when voters are informed, interested, and involved there is no guarantee that 'good policies' will result. Political incentives run counter to the public interest whether measured by efficiency, equity, or careful use of natural resources. Because public management implies an inherent separation of authority responsibility, citizens seek governmentally provided goods and services for which others will pay. Wants are systematically exaggerated and inflated to "needs". Special interests, program administrators, and politicians cooperate to concentrate benefits on themselves and diffuse the costs. Rarely will an individual voter or politician find it rational to organize effective opposition to these activities, since the high cost of organizing is concentrated on the individual and his or her share of the benefits is small.

There is little wonder that many local people have opposed privatizing the public lands. With public ownership, they have been free riding on other taxpayers; with private management, they would have to start paying for such rides. There is even the possibility that uses would change once property rights were established and people had to determine the true value of present uses. Once the lands were in private hands, however, the benefits of private ownership would become apparent. If a voluntary group wanted to protect a particular marsh or piece of forest, they could approach the owners with an offer to buy it outright or they could propose a more creative protection scheme, such as restrictive covenants. Entrepreneurs would begin searching

for ways to provide the most valued uses of the lands. Under a system of property rights, managers would be held accountable for their actions. Potential future users would be represented by speculators—owners who hold the resource in anticipation of appreciation in value. They withdraw resources from current consumption and postpone use to a period when its social value is higher. In such setting, timber harvest would no longer occur where the costs of management and harvest exceeds the value of the timber. Those who are skeptical of these claims might look to states that are almost entirely private, such as Iowa or Maine. Were they a mistake?

The arguments for privatization that are based on the NRE are made with the full recognition that the private market is not perfect and that people have motivations beyond obtaining material goods. The market is assumed to have many imperfections, including transaction costs, imperfect information, externalities, and difficulties in producing adequate supplies of public goods. Goal-oriented, self-interested people are assumed to make mistakes, and individuals outside the government are assumed to be no more infallible than those inside.

The traditional justification for governmental management of resources is market failure. The NRE justification for privatization is governmental failure—the result of inherent irresponsibility. The two failures come together at privatization. The cure for market failure need not extend beyond establishing and enforcing property rights when ways are found to do so. The cure for governmental failure,, at least in resource management, is privatization. When these analytical concepts are coupled with the normative concept of individual freedom, they make a compelling case for privatizing much of the federal estate.

Footnotes

1. Garrett Hardin, "An Operational Analysis of Responsibility," in Managing the Commons, ed. Garrett Hardin and John Baden, (San Francisco: W.H. Freeman, 1977), p. 67.
2. The classic statement of this is Adam Smith's - "It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their interest. We address ourselves, not to their humanity but to their self love, and never talk to them of our own necessities but of their advantage." From An Inquiry Into the Nature and Causes of the Wealth of Nations (Oxford University Press, 1976), pp. 26-27.
3. Garrett Hardin, "The Tragedy of the Commons," Science, no. 162 (1968), pp. 1243-1248.
4. The free rider problem is addressed in the theory of public finance and the theory of externalities in economics. See, for example, James M. Buchanan and Marilyn R. Flowers, The Public Finances (Homewood, Ill.: Richard D. Irwin, 1975). A large body of literature on the prisoners' dilemma also addresses the free rider problem. See Duncan R. Luce and Howard Raiffa, Games and Decisions: Introduction and Critical Survey (New York: John Wiley and Son, 1957). The United States conducts a large group free rider experiment every session of Congress. The result is a budget containing projects for which every dollar of expenditures paid by the taxpayers from all 435 Congressional districts generates benefits worth less than a dollar for a small number of people in a few districts. If each Congressman refrained from promoting uneconomical but vote generating projects the federal budget would be more easily balanced. For a proposal to deal with this problem see Rodney W. Fort and John Baden, "The Federal Treasury as a Common Pool Resource and the Development of a Predatory Bureaucracy" in Bureaucracy vs. Parliament: The Environmental Costs of Bureaucratic Governance, ed. John Baden and Richard Stroup (Ann Arbor: University of Michigan Press, 1981), pp. 9-21.
5. James M. Buchanan, Freedon in Constitutional Contract: Perspectives of a Political Economist (College Station: Texas A&M University Press, 1977), p. 17.
6. Thomas Hobbes, Leviathan (London: J.M. Dent, 1947), p. 57.
7. Jean Jacques Rousseau, The Social Contract and Discourses, trans. G.D.H. Cole (New York: E.P. Dutton and Company, 1974), pp. 135-36.
8. Marion Clawson, "The National Forests," Science 191 (1976), pp. 762-767.

9. See William F. Hyde, "Compounding Clear Cuts: The Social Failures of Public Timber Management in the Rockies," in Bureaucracy vs. Environment: The Environmental Costs of Bureaucratic Governance, ed. John Baden and Richard Stroup, (Ann Arbor: University of Michigan Press, 1981), pp. 186-202.
10. Marion Clawson, Economics of National Forest Management: Working Paper EN-6 (Washington, D.C.: Resources for the Future, 1974), p. 108.
11. Rational ignorance is discussed in James Gwartney and Richard L. Stroup, Economics: Private and Public Choice 3d ed. (New York: Academic Press, 1983).

The Political Economy Research Center is an unusual organization. Our research orientation and level of commitment provide PERC associates with an important opportunity to analyze and make recommendations on economic and natural resource issues in both the governmental and private sectors. Approximately 50 percent of our efforts have been devoted to natural resource economics and policy, while the balance of our work deals with taxation, regulation, entrepreneurship, economic history, and a sprinkling of other topics. To the best of our knowledge, we are the only research organization with this orientation.

Since its founding in 1980, the Center has maintained a principled commitment to the development of a society of free and responsible individuals in their relations with one another and their environment. On the basis of considerable study and research, we expect these values to be fostered by social and political organizations relying on private property rights, the rule of willing consent, and the market process. Although we are sensitive to the problems of market failure, we recognize that there is an analogous set of problems with governmental management.

This paper is one of a series of research efforts supported by PERC.

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