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# Political Vs. Economic Incentives

B. Delworth Gardner
*Brigham Young University - Provo*

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If this paper is the best challenge that can be brought against the New Resource Economics (NRE) and its advocacy for privatization of the public lands, we are likely to see both around for a long time. If there is fallacy in the idea of privatization, it is not illuminated in the arguments of this article. The paper misrepresents what the NRE is, shows little comprehension of the basic concepts on which it rests, and completely reverses the basic nature of the privatization solution. I hope to demonstrate as much in this critique.

To permit the identification of the main points of confusion and disagreement in the paper, let me briefly recapitulate what I believe are the essential elements of Runge's argument. I could cite chapter and verse, but that is unnecessary since there is little doubt where he stands.

Because the public lands are owned by the people as a whole, they are a "commons," and therefore the NRE alleges that they are subject to all the problems inherent with common property resources. They will be overexploited because of free riders: "each individual demands more than his or her fair share of the benefits of a common resource." This occurs because in considering the taking of another unit of output (such as a grazing animal), a myopic individual sees only the costs and benefits to him of adding this unit. He neglects to see the added costs his action imposes on all other users of the resource because there will now be less forage to go around Thus total costs will be underestimated and resource use will extend beyond the economically efficient level where marginal benefits equal marginal costs.

Moreover, bureaucrats who make the allocative decisions are "rent-seekers"; i.e., they "use the coercive power of government to favor a few privileged groups at the expense of the taxpayers." In the process they get larger budget allocations and other favors for themselves and their bureaus. Both rent-seeking and free-riding misallocate resources. The solution to these problems of resource overexploitation and misallocation as seen by the NRE is privatization of the public lands. But according to Runge, this must involve the imposition by the state of coercive private property rights, a solution that is anti-libertarian because it rules out a prized principle of libertarian and conservative thought—voluntarism. Thus, the professed libertarian NRE is caught in a contradiction—advocating a top-down imposition of private rights by a tyrannical state. A true libertarian solution would involve voluntary agreements by those parties who are closest to the resources and who know most about them: individuals and local and state interests. Besides, and to cement the case against privatization, what evidence there is suggests that publicly owned resources are more productive than are privately owned resources. Thus there is nothing to be gained and much to be lost from substituting private ownership for public ownership.

What is wrong with this argument? Quite a bit, it appears to me.

The NRE rests on much more than just "free-riding" and "rent-seeking," even if they were correctly defined. Perhaps its most fundamental premise is hardly even mentioned in the Runge paper: that incentives matter in resource-use decisions. Incentives interact with utility functions to yield subjective preferences that ~~induce~~ all human behavior, even that of government officials. All decision-makers are assumed to be rational in that they tend to make decisions that they perceive to be in their self-interest. Incentives and property rights are closely intertwined since it is property rights that define who can benefit from the productivity of resources and who must bear the responsibility of ownership.

If property rights do not exist—i.e., if no one can be excluded from claiming benefits from the resources—then the free-rider problem could exist. Runge's position ~~that~~ seems to equate free-riding with open access to resources could be challenged, but I would not push the point too far. He is quite correct in pointing out that the NRE believes that free-riding (open access) usually leads to overexploitation of resources. But private property rights greatly ameliorate the free-riding problem.[1] That is why they appeal to the NRE. Free riders cannot impose costs on the owners of resources with impunity if clear property rights exist. Either the parties voluntarily negotiate their differences, or somebody gets taken to court. In this way, private property rights internalize the external effects associated with the free-riding problem. And for efficient elimination of these effects, it doesn't really matter who owns the resources so long as someone does.[2] This bargaining incentive is the very essence of the kind of voluntarism that Runge identifies with libertarianism. But he fails to see that clear property rights are a prerequisite for it to occur.

He also misses a more important problem with public ownership, an issue that has become one of the hallmarks of the NRE. Resources are seldom if ever strictly price-allocated under governmental management. They are allocated by bureaucratic decision in the political arena.[3] Many products, such as most forms of recreation, are available at very nominal or zero prices. Is it any wonder that excess demand exists and the resources sometimes may be overtaxed?

Political decisions are bound to be economically inefficient. Economic efficiency requires that resources be allocated to those who value them most highly. It also requires that investment in resource development and productivity enhancement be undertaken to the point where marginal costs equal marginal benefits. There is nothing in the political process that requires that these criteria be taken seriously. The New Resource economists tell us that private ownership of the resources would be conducive to the rationing of resources by price and thus would likely be efficient. If private owners did not manage the resources efficiently, it would cost them in foregone wealth. The same could be said for inadequate attention to conservation and resource protection. There is nothing like these incentives in public-sector management.

This brings me to Runge's discussion of "rent-seeking." He clearly does not understand this concept in the context of its development in the literature or its use by the NRE.[4] He suggests that it is the bureaucrats who are the rent-seekers—"government employees such as public land managers, who extract 'rent' from the public in the form of larger budget allocations." Not so.

Very broadly defined, economic rent is generated when a product is worth more to the user than is paid to obtain it. It is a surplus to producers and consumers who receive it. When resources are allocated by political fiat, and especially when only nominal or no prices are charged, the economic rents can be enormous. Who gets these rents is that regional interests that are presently capturing these rents want them continued under public management. This is the reason for the lobbying and other political activity that is intended to influence the political decision-makers and make sure that the public largesse continues. Thus it is the special-interest groups who benefit from political decisions, and who are the rent-seekers in the NRE model. Of course the government bureaucrats and politicians may also benefit from this rent-seeking activity and therefore encourage it.

An efficiency problem results because rent-seeking is a competitive activity. The rent-seekers might be willing to spend up to the value of the rents rather than go without them. They spend in various forms: lobbying, contributions to political campaigns, public information drives to curry public favor, etc. The point is that this activity has the tendency to dissipate the rent itself, since it is now more costly to obtain the valuable surplus. Anyone who knows of the lobbying activities of the water developers, the energy companies, the graziers, the wilderness buffs, or the wildlife harvesters (to name a few obvious rent recipients) will have no difficulty understanding the phenomenon. This is why the NRE has referred to political allocations (transfers) as a negative sum game,[6] whereas private decisions to move resources to more productive employments are essentially a positive sum game that enhances the productivity of resources. Rent-seeking is a wasteful activity, profit-seeking a productive activity. One takes place predominantly in political allocations, the other predominantly in market allocations. Thus the one characterizes allocations made under public ownership of the public lands, while the other would characterize decisions if the land were privately owned. Runge seems to be totally unaware of these fundamental distinctions.

Finally, Runge is just plain wrong in arguing that the creation of private property rights involves a top-down authoritarian government decision that is inconsistent with libertarian principles. It is true, as Runge points out, that Hardin suggested that one of the solutions to problems of the commons was imposed state control. Regulation by government of private activity is a favorite means of this control. But creating private property rights, backed up by constitutional guarantees, is not a regulatory activity but is the enforcement of the rules of the game under which private enterprise is played. It is not the same as imposed top-down regulation of private decisions.

Runge's discussion of the alleged empirical superiority of the productivity of public grazing lands versus private grazing lands is also not convincing. First of all, range condition is a very slippery concept, as any range specialist will tell you. In addition, there is a problem of choice of criteria to determine what is optimal. Most ranchers are interested in the economic product that can be taken off the land in perpetuity in the form of logs, pounds of beef or lamb, and the like. Many public managers, trained in biology and ecology, tend to look at biological criteria such as climax vegetation, which may be maximized when there is no economic product taken. That is one of the criticisms levied against public ownership by the NRE: sometimes too little product is taken and sometimes too much. This is true with timber, grass, energy fuels, and minerals, and it has been carefully documented in a number of studies.[7] The reason is obvious: political rather than economic rationales now guide land-use decisions on the public lands.

If we want higher levels of productivity and greater yields from our forests and grazing lands, the conclusions of the NRE still stand. We are far more likely to get them from private ownership and management than from continued public ownership and management.

1. See Harold Demsetz, "Toward a Theory of Property Rights," *American Economic Review* 57, no. 2 (May 1967): 347–59. Also, for an excellent collection of papers about property rights, see Eirik G. Furubotn and Svetozar Pejovich, eds., *The Economics of Property Rights* (Cambridge, Mass.: Ballinger, 1974).
2. This is one of the messages in the classic article by Ronald Coase, "The Problem of Social Cost," *Journal of Law and Economics*, no. 3 (October 1960): 1–41.
3. Some of these issues are worked out in more detail in B. Delworth Gardner, "Market Versus Political Allocations of Natural Resources in the 1980's," *Weste Journal of Agriculture* 8, no. 2 (1983): 215–29.
4. The earliest paper to discuss rent-seeking is Anne O. Krueger, "The Political Economy of the Rent-Seeking Society," *American Economic Review* 54, no. 3 (June 1974): 291–303.
5. A splendid treatment of economic and political allocations is Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980).
6. This point is elaborated in Terry Anderson and P.J. Hill, *The Birth of a Transfer Society* (Stanford, Calif.: Hoover Institution Press, 1980).
7. Two books devoted to this subject are John Baden and Richard Stroup, eds., *Bureaucracy vs. Environment: The Environment Costs of Bureaucratic Governance* (Ann Arbor, Mich.: University of Michigan Press, 1981); and M. Bruce Johnson, eds. *Forestlands: Public and Private* (San Francisco: Pacific Institute for Public Policy Research, forthcoming).