Challenging Federal Ownership and Management: Public Lands and Public Benefits (October 11-13) 1995

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John B. Loomis
Professor of Agricultural and Resource Economics
Colorado State University
Fort Collins, Colorado

CHALLENGING FEDERAL OWNERSHIP AND MANAGEMENT: PUBLIC LANDS AND PUBLIC BENEFITS

Natural Resources Law Center
University of Colorado
School of Law
Boulder, Colorado

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I. TWO REASONS FOR CONTINUED GOVERNMENT OWNERSHIP OF LAND

Lands remaining in the public ownership today are usually there for two key reasons: (a) a rare combination of natural resources (high peaks, old growth forests, free-flowing rivers, non-game wildlife habitat) provide unique environments not found on private lands. The unusual convergence of geological structure or vegetative structure is often not available on private lands; (b) the lands were so unproductive in producing commodities that the government could not even give them away to railroads, homesteaders, ranchers or miners. In many cases the western public lands make an insignificant contribution to private commodity production (e.g., only about 7% of U.S. beef supply comes from public lands Loomis, 1993).

During the disposition era, the land that was privately profitable for production of agricultural commodities, minerals and grazing was acquired by private interests (Loomis, 1993). What remained or what the government repurchased during the dustbowl days or with "duck stamp" money was land that simply was not privately profitable for sustained production.

II. PUBLIC LANDS AS PUBLIC GOODS

But geologic and landscape structures that make the land too steep or too arid to develop is just what makes it very productive at producing environmental attributes we call public goods. Unlike private goods such as a steak which is divisible into small, homogeneous units and whose consumption by one person leaves less available to others, public goods are the ultimate non-consumptive use of natural resources. Public goods are distinguished from private goods by two key characteristics: **(1) non-rivalry in consumption**. That is, one persons viewing of a waterfall or knowing that the Middle Fork of the Salmon river is undamed or that bull trout will not become extinct does not reduce the amount of benefit available to others. We can all simultaneously enjoy knowing that whooping cranes will continue to make their migration each year as part of the cycle of life. This is the same reason that national defense is a public good; protecting my house does not reduce the amount of protection available to my neighbor's house. **(2) non-excludability.** This means that, once a unique feature such as the geysers in Yellowstone are protected from development, there is no economically feasible way the producer can preclude someone from enjoying the knowledge that is resource is protected for them and future generations. Again the analogy to national defense is clear: there is no way my house can be technically protected from nuclear attack, but not my neighbor who may not pay any taxes. (See Stokey and Zeckhauser, 1978 for a more complete discussion of public goods).

III. MARKET FAILURES FROM PRIVATE OWNERSHIP

This brings us to another reason that many environmental resources should remain in public ownership: there would be at least two sources of market failure from private ownership. The first follows from the characteristics of the public good. A private firm (which by definition does not have the legal authority to impose mandatory payments of all beneficiaries-what we call taxes) would not be able to technically exclude people who would not pay for the protection of the resource. How can a firm produce a public good which benefits everyone if it cannot exclude beneficiaries that do not pay? If payment is voluntary, few people will pay. If the quantity demanded is limited to just the few people who pay, this will under supply the quantity of public good since the benefits to the rest of the non-paying citizens are ignored when a company determines the amount of public good to supply (Stokey and Zeckhauser, 1978). In a private market, if you do not pay, your voice is not heard. A simple analogy to public television (PBS) is eye opening. Are the benefits of these programs measured only by the contributions received. My guess is only a fraction of the people that watch, actually contribute. The same is true for national defense. If, as supporters of privatization suggest, "the market will provide", why do we not hear calls for privatization of national defense? Because the market would not provide the optimal amount of national defense simply because it can't exclude non-payers from the protection that national defense provides. That is the reason we use taxes and force everyone to pay to provide something that is a public good. Why is it so hard to accept the logic when it comes to government production of environmental goods from public land?

Besides the likely undersupply of public goods that would occur with privatizing National Forests, Wildlife Refuges and National Parks, is the fact that the market that would result from privatization is not likely the efficient competitive market but rather monopolies. Many of the features of public lands are unique and indivisible. Unlike farmland which can be parceled out in 10 acre, 100 acre, 500 acre, etc., parcels, Yosemite Valley, Lake Tahoe, Hells Canyon comes in one indivisible unit. The spectacular nature of these resources is their magnificent scale and juxtaposition of geology and water. Few people would pay to see 100 feet of Hells Canyon, yet this is the average size of a typical house parcel. In many cases there are just one of every unique natural resource found on public lands. As such we would have a series of monopolists. Monopolists do not produce the quantity or charge a price that has the much sought after properties of the competitive market. Monopolists restrict output, in this case, restrict access and charge prices above competitive prices.

So when we hear the proponents of privatization speak of the wonders of the markets, they have overlooked one of two things: (1) the markets they are talking about emerging are for the **private commodities**, where the market already works just fine and does not require access to public lands to insure an adequate supply of lumber, beef, minerals, etc. The price system works just fine to insure private land, labor and capital meet the demand for the commodities; (2) the type of markets that will emerge for the public good aspects will be monopolistic and undersupply the quantity of public goods.

IV. WOULD COUNTY OWNERSHIP BE THE BEST OF BOTH WORLDS?

Even county ownership of our National Forests, National Parks and Wildlife Refuges is likely to undersupply the unique public goods provided by these lands, since county taxpayers will not consider the benefits received by the rest of the U.S. citizens from preserving the unique features of these public lands. And why should they? If county citizens have to pay the full cost of managing these lands and cannot charge non-resident beneficiaries for the habitat services provided to hunters and viewers in other states along the Pacific Flyway, they will often find it more profitable to turn the wetlands into rice fields.

If Placer County citizens in California owned the Eldorado National Forest and had to pay the entire cost of fire protection and faced the full opportunity cost of not harvesting the timber, do you think they would care about what citizens in New England thought about these old growth forests and the California Spotted Owl? Probably not! Since only county residents pay the cost of fire protection and the foregone revenue from maintaining the old growth forests as California Spotted Owl habitat, county residents would not consider the benefits forest preservation provides to New England households. But our surveys show New England household derive significant benefits from fire protection and preservation of old growth forests in California for the California Spotted Owl. Once again, too narrow a definition of ownership results in ignoring part of the public good benefits and favoring commodity production which can be captured by local citizens.

V. CAN PUBLIC LAND MANAGEMENT BE MADE MORE EFFICIENT?

In fairness it is important to point out that just because the private sector would not supply the optimum amount of public goods from National Forests, does not mean the government is omniscient and efficient. Far from it. Despite the best of intentions by managers, politicians often impose inefficiencies to benefit their local constituencies. These inefficiencies are not only economically unsound they are environmentally unsound. These all too frequent examples of destructive below-cost timber sales, should not cause us to abandon public land management, but rather seek to reform the institutional rules that allow these "takings from the Federal Treasury". Perhaps we need the equivalent of a base-closure committee structure to decide which below cost timber sale areas and below-cost livestock grazing areas should be eliminated.

In sum, there is a strong economic foundation for retention of public lands. If privatization is such a good idea, let's try it first on providing for our mutual defense.

V. REFERENCES

Loomis, John. B. 1993. Integrated Public Lands Management: Principles and Applications to national Forests, Parks, Wildlife Refuges and BLM Lands. Columbia University Press, New York.

Stokey, Edith and Richard Zeckhauser. 1978. A Primer for Policy Analysis. W.W. Norton Company, New York.

APPENDIX OF OVERHEADS TO BE USED IN PRESENTATION

SOME ECONOMIC CONTRADICTIONS IN THE PRIVITIZATION DEBATE

Questions to ask yourself?
1. If the lands that remain public today were that valuable at producing private commodities how come they were not acquired by private landowners under homesteading acts or the 1872 Mining Law?

One Answer: production of commodities from much of the public lands is uneconomic. Commodity production can be made privately profitable only with hidden subsidies such as "purchaser road credits" for below cost timber sales, below-market grazing fees and nearly "no-cost" locatable minerals laws.

2. What are National Forests, Parks and Wildlife Refuges comparative advantage?

One Answer: These lands unique combinations of geology and vegetation make them too steep or too arid for commodity production but ideal for producing public goods.

3. But what are public goods?

Answer: Pristine landscapes, habitat to non-game species, free-flowing rivers, geyser basins, mountains such as Half-Dome, etc.

These natural resources are public goods because they have two elements in common:
a. Non-rivalry: We can all enjoy knowing they exist and are protected for future generations without reducing the amount available to anyone else (unlike a hamburger).
b. Even if you don't pay for this enjoyment, you can still "consume" the benefits of resource protection, i.e, you can't effectively be excluded.

National Defense is a public good for the same two reasons.

4. Why can't we rely on the private sector to supply public goods?

One Answer: Unlike the government with its taxing authority, firms can't force people to pay even if they benefit. So if you can't be excluded, why pay? If most people don't pay firms will either go out of business or just supply enough for the ones that pay. But we all benefit, so limiting the production to just payors ignores the benefits to everyone else.

Example of PBS.

5. At best what type of markets might arise under privitization?

One Answer: probably not the competitive markets that one would hope for.
More than likely, there would be local monopolies?

6. Why Monoplies?
Public goods like Yosemite Valley or Hell's Canyon are not meaningfully divisible into

quarter acre parcels like homesites.
These public goods are unique, one of a kind resources for which maximum profit would likely accrue to a single owner.

My Conclusion:
The undersupply of public goods and possible monopolies are called Market Failure (circa 1958) for a reason: the market doesn't work well for certain types of goods.

If the problem is inefficiency of public management (which is a real problem), let's fix the problem not adopt a different set of problems.

Final question.

If privitization is so advantageous why don't we privatize national defense first?

This would save several hundred billion dollars of taxpayer money and greatly reduce the deficit as compared to couple of billion dollars saved from abolishng the U.S. Forest Service and BLM.