At the Margin Myth 2: collective ownership

By Glen Tenney

A myth can be defined as a generally accepted notion that is not supported, or in fact obviously contradicted, by reality or truth. In the area of environmentalism, there are several persistent myths that enjoy wide acceptance.

Myth number 2: Collective ownership and control lead to conservation of the highest-valued resources. According to this idea, people's inherent self-interest causes them to use available resources without regard to either the needs of others or even their own future needs. Collective ownership of important resources is then called for, in order to curb the "bad effects of individual self-interest." In this article I will point out why this line of reasoning is erroneous on both counts.

The truth in the above reasoning is that people are indeed self-interested. It is clear that people do have a pervasive desire to better their own lives in whatever ways they can. But whether this leads to the conservation or a waste of resources depends on the institutional arrangements with regard to the ownership and control of the resources.

One of the first formal observations on the results of collective ownership was by Aristotle in the 4th century B.C., when he said, "For that which is common to the greatest number has the least care bestowed upon it."

A more detailed analysis of the collective ownership problem with respect to the ecological environment was made by Garrett Hardin in his famous essay "The Tragedy of the Commons." Hardin showed that the fundamental problem in a system of common ownership is the lack of incentive for people to assess the true costs and benefits of their actions. When people were allowed to graze their animals on the "commons," which was land owned collectively, the benefits of doing so accrued to them individually while the costs, in terms of decreased value and future usefulness of the land, were borne by everyone in the community. From each individual's point of view then, there was a great incentive to overgraze the land, because the benefits inevitably outweighed the small perceived costs to each individual. This over-grazing, of course, would in the long run damage the land such that the benefits derived from the use of the land could no longer be realized.

It should be noted that in such a situation, the land would be overused whether a fee were charged for the use of the land or not. If the rental charge is fixed, and not dependent on intensity of resource use, the amount of the rent payment has no effect on the intensity with which the land will be used. The user of the land will have the same incentive to exploit the land to its fullest potential regardless of his rental payment amount unless he is constrained by either a fall in the value of the land or, in the case of rented land, by constraints imposed on the lessee by the owner of the land who is subject to the same market constraint.

The problem with "public ownership" of land is that the "owners" of the land are not true owners at all. They have different incentives than a true owner, because they (taxpayers or whoever owns the lands) can neither reap the benefits of wise use nor are they influenced by changes in the value of the land because of their inability to sell or otherwise dispose of the land. In short, the price system is not allowed to operate in ways that provide incentives to optimize the value of the land. Professional managers, who are appointed through the political process, are necessarily guided by a different set of incentives in deciding how much use, and what kind of use, to allow. It would be my argument that this bureaucratic/political approach to land use is inferior to market-based signals that stem from prices determined by real people with a personal financial interest in the land.

When land is privately owned, on the other hand, there is a great incentive for each owner to avoid the "tragedy of the commons" because each owner is held personally responsible for the costs of using the land. This responsibility is enforced in the market by the price system. Because the current value of any resource is determined by the future usefulness of the resource, it is very costly for an owner of a resource to allow its value to decrease through misuse. This will have a direct negative impact on the owner's well being. Incentives for overuse of a resource come only when common ownership allows and encourages people to reap the benefits while passing the costs on to others.

The second part of the case for common ownership, as I described it in the first paragraph above, is the idea that self-interested individuals use resources under their ownership without regard to the needs of others. While this might be true in an isolated case, it is certainly misleading to think that this happens generally. The reason is because it is very costly for a person to do so. If a person does not pay attention to what other people are willing to purchase in the market, and is therefore not successful in satisfying those desires of others, he will find his income very limited and his standard of living correspondingly low. People in an advanced society such as ours earn most of their living by serving other people's needs, not their own.

This is the miracle of a market economy, which necessarily has privately owned resources as its base — that people's self-interest is channeled into efforts that tend to benefit other people as well as the individual acting in his own best interest.

So it is *common ownership* of resources that encourages people to use those resources without regard to future needs because the user does not bear the full cost of doing so. And as a result other people's needs are neglected as the costs associated with resource depletion are forced upon them by individuals trying to exploit resources at the expense of everyone else. If conservation of resources is what we're after, it is private ownership of those resources that serve the purpose of conservation by making the owners responsible for resource use. Common ownership will not do the trick.

Myth number 3: Government regulation is an effective way to deal with spillover costs of production in the economy. Stay tuned.

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