

# Loomis. Chapter 3 Economic Rationales for Continued Government Ownership of Land

## Reasons for Government Ownership

### Market Failures

A. externalities - negative (and positive) effects that are not reflected in the cost of a good or service

Example-a city that owns (does not own) its own watershed

“the first economic reason for government ownership is to internalize externalities”-- ensure that commodity production decisions reflect a balancing of the commodity benefits with the costs imposed on natural resource services from these lands”

B. public goods - goods that are provided to one person can also be costlessly consumed by another (e.g., clean air, natl. defense)

competitive, free-enterprise system does a good job of supply private goods when there are no externalities in the production or consumption of the private good. Private firms undersupply the public good. Government ownership can help supply the optimal amount of public goods.

But govt. must still determine optimum quantity (and mix) of public goods to supply. There are opportunity costs associated with resource decisions. . .

opportunity costs - costs from forgoing other valuable goods or services

land and resource planning by federal agencies help determine the mix of public goods to provide

“The pretense of market failures, externalities, and public goods justifies govt. ownership...”

### Alternatives to Public Ownership

1. disposal-sale to individuals (basis of Sagebrush Rebellion)
2. marketizing-operating the public lands on a “pay-as-you-go” basis (O’Toole 1988)
3. corporatizing-managing public lands as quasi-independent corporations

“all [3 alternatives] ignore the fundamental rationale for continued govt. ownership and management: most of the natural resources on public lands do not fit the market model of a perfectly divisible resources, the production of which does not impinge upon any third parties”

--the forests are more than timber; they are watersheds, wildlife habitat, and recreation areas . . . --  
--rivers are more than hydropower and agricultural water supply

improving current public management is better solution public land management driven by a pursuit of maximum profits often leads to market failure in the form of externalities and

undersupply of public goods

### **3 Roles of Government in the Economy**

- 1) Promote economic efficiency in using resources to obtain the maximum benefit for society
  - keep markets competitive rather than monopolistic
  - correct for market failures and supply of public goods (a market failure such as a negative externality represents inefficient use of resources)
- 2) Stabilize the overall economy to prevent severe downturns (avoid depressions) and stabilize the overall level of prices (avoid hyperinflation)
  - control unemployment and inflation
  - promote economic growth
- 3) Promote equity by ensuring everyone of minimum levels of material goods
  - tax and transfer system (welfare, in-kind payments)

\*\*only the first reason justifies public ownership

Efficiency is Primary Economic Rationale for Government Ownership

- efficiency is maximizing benefits in excess of costs
- internalize negative externalities and provide public goods
- some argue (Conservation Foundation) that government should emphasize those goods the market will not supply or provides less than the optimal amount such as wilderness or migratory wildlife habitat

Improving the Management of Public Lands should be goal

- eliminate incentives that pick inefficient resource allocations (e.g., K-V funds)

“anyone who has ever studied timber sales on the Tongass N.F in Alaska in the 1980s can attest to the irrationality of continuing these sales in the face of overwhelming evidence of persistent and substantial economic and environmental losses”

- timber targets of 400 million board feet per year
- \$40 million dollars to meet this target

3 Roles of Analysis in Public Land Management

- improve the management of public lands and avoid economically and environmentally unsound practices (Tongass Timber Reform Act)
- identify the benefits and costs of alternatives is useful to local line managers in an agency (analysts should integrate both market and non-market goods)
- useful to other agencies such as OMB and may be helpful in dealing with Congress

“analyst’s job is to produce the facts and let the analysis speak for itself. . . “

### **Another View: Privatization, Marketization, and the Sagebrush Rebellion**

Argument--private landowners would not subsidize money-losing timber sales or range

improvement projects

“budget maximization hypothesis”—land managers have no incentive to be efficient

O’Toole solution--market amenities

payments in lieu of taxes, keeping timber sale receipts offer misdirected incentives

Solution:

- 1) remove misdirected incentives
- 2) communicate the benefits of market and non-marketed resources to land managers and other decision makers