

The Tragedy of the Commons

The use of common property must have its price

Commons? What does that mean? Perhaps one still remembers hearing about the dilemma in an economics course. It was no problem to reproduce the easily understandable context in the exam. Rather, one asked oneself the question: “What do you need this for in practice”? But today, when the loss of biodiversity and the pollution of air and water as well as climate change have increased greatly, the topic comes up again: The use of common property. What are the possible solutions to this dilemma?

Seemingly free, unrestricted common property - the dilemma of the commons

The concept of the “tragedy of the commons” goes back to William Forster Lloyd, British writer on economies, and the year 1833. The tragedy or dilemma is illustrated by a simple example: The various shepherds of a village use the common property, a communal meadow, free of charge. The yield is sufficient for all if each herder uses it for only one animal. But if a shepherd extends the use for his own benefit and lets more than one animal graze, he harms the community. The communal meadow cannot regenerate and the overuse of the resource reduces the yield for the community as a whole. The damage caused by individual behaviour can ultimately become so great that the common property is permanently damaged.

Currently, we realise that it is not possible to claim such damages from the exploiters after the damage has been done. A company’s profit has already been accounted for and is distributed to the owners. Therefore, the dilemma must be solved in advance so that damage does not occur in the first place. What feasible answers do we have?

Solutions

Ethical behaviour, social norms and values are considered the simplest solutions to the dilemma. Certainly, this will work in smaller economic units even today. In larger, anonymous markets characterised by considerable competitive pressure, it is obviously not a workable solution. In principle, privatisation of common property for its protection is also an option, but not if the resources to be protected, as in the case of air and water, cannot be circumscribed. Therefore, the only remaining option is regulation: either to make use more expensive or to limit it.

Regulations for environmental protection are not new, but must be adapted in view of the manifold ecological problems. The aim must be to change the behaviour of those responsible with a simple and comprehensible procedure, and to sanction misconduct stringently. After all, economic profit is only made if it has been achieved in harmony with environmental and social aspects.

Since 2015, damage to the environment through CO₂ has a price

With regard to the environmental damage caused through CO₂, the Paris Agreement is a milestone. It was regulated for the first time that air pollution through CO₂ is no longer free of charge. The extent to which the implementation of CO₂ pollution certificates or taxes is effective, and whether the time frame is ambitious enough, is judged in various ways. What is important, though, is that the CO₂ price - as sometimes even demanded by companies - now in Germany has a steering effect with about 100 euros per ton. On the one hand, it is important to allow the population to take part in the transition by compensating for social hardships, and on the other hand, not to overly burden companies.

Is it difficult to take into account the costs given the international competition?

It is helpful for the transformation to start early, for example, countries like Switzerland and Sweden, already have a higher CO₂ price today. But air is not the only common property worth protecting, and CO₂ is not the only damage. Looking beyond CO₂ and climate change, there are successful examples of internalisation, i.e. taking into account the costs when public property is damaged: Denmark introduced a tax on pesticides in 2014. As a result, soils and food are less polluted. And, the tragedy of the commons is transferable from the ecological to the social dimension of sustainability. Examples are the setting of a minimum wage or the introduction of a sugar tax for sweet drinks, as England implemented in 2018. In Denmark, as in England, companies were initially critical of the changes, but today the transformation step is considered a success.

Isn't that “selling indulgences”?

The sale of indulgences is a dark chapter in church history in which believers were absolved of sins in exchange for money. If one disregards the ethical aspect, the comparison is not appropriate because according to the general understanding of the law, an offender is responsible for the damage he has caused. The accusation of selling indulgences is obvious if the damaging party does not care about the damage caused, denies it and possibly does not intend to change one’s behaviour despite the payment of money. Or, if the monetary payment is not used to remedy or reduce the damage. However, the fundamental need to take into account the use of common property and to put a price on the harm done is unquestionable.

Conclusion

Regulation through true prices has a significant impact and is a necessity in itself to enable fair competition between suppliers. Competition can develop more force and damage does not occur in the first place. Clearly, steering capital flow towards green business models through sustainable finance is important. However, direct steering of the economy through “true prices” has a quick and reliable effect. Thus, it is high time to emphasise the importance of the “tragedy of the commons” in economic education and to give it a greater status. It will also improve understanding of the need to consider such environmental damage, which is sometimes lacking in society. Ultimately, this will raise awareness of ethical business practices - which in turn will counteract rampant regulation.

About the author

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The tragedy of the commons: If individual shepherds graze common ground with too many animals, it becomes unusable for everyone. © Bundschatten, pixabay.com