

Property Consciousness and the difference between WTP and WTA

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Social consciousness develops in reflection and interaction with material conditions of life. These material conditions embrace the conditions of production as well as consumption. The socialisation of conditions of production in capitalism is accompanied by a sharpened individualisation of the conditions of consumption. Consequently, socialisation of the human consciousness under capitalism remains fragmented and incomplete.

The incomplete socialisation of consciousness reflects in the overvaluation of private goods relative to public goods. One reason for valuing private goods over public goods is their spatio-temporal flexibility. For instance, a privately owned painting can be put up at a place of one's choice, and enjoyed at one's convenient time. In contrast, one has to visit a museum, at commonly fixed timings to enjoy a painting in the museum. Likewise, private transport enables one to choose one's time and point of departure and destination, whereas these are fixed in public transport. A second reason for overvaluing private goods may be the fact that private goods and benefits exclude others from enjoying them, except at the will of the beneficiary – the advantage of exclusion. This too may be a source of satisfaction. This is similar to the 'snob' effect in economics, and denotes a 'pure' property consciousness.¹ Whether private property consciousness originates in the technical properties of use of goods, or from the right of exclusion, it reflects in valuing private goods more than public goods.

This aspect of property consciousness, i.e., its incomplete socialisation, is useful in explaining a well known dichotomy in environmental economics. This dichotomy can in turn be used to estimate the incomplete socialisation of property consciousness in capitalism. This dichotomy is the difference between two evaluations of equal changes in environment, called the Willingness to Pay or WTP and the Willingness to Accept Compensation or WTA, by the victims of environmental damages.

Individuals can be asked to evaluate a deterioration in environment, *inter alia* in two ways. They can be asked what they are willing to pay (WTP) to remove the deterioration. Alternatively, they can be asked what they are willing to accept as compensation (WTA) for the deterioration in environment. It is striking that most studies find a big difference between the two evaluations (Hammock and Brown, 1974, Hanley; Rowe *et. Al.*, 1980, Hanley, 1988). This is shown by the difference between columns (1) and (2) in Table 1 below.

Table 1. Difference between WTP and WTA

Study	WTP (\$)	WTA (\$)	Rate of Socialisation
	1	2	3 = (1 ÷ 2)
Hammack and Brown	247	1044	0.24
Banford et al	43	120	0.36
	22	93	0.24
Sinclair	35	100	0.35
Bishop et al	21	101	0.21
Brookshire et al	43.64	68.52	0.64
	54.07	142.6	0.38
	32	207.07	0.15
Row et al	4.75	24.47	0.19
	6.54	71.44	0.09
	3.53	46.63	0.08
	6.85	113.68	0.06
Hovis et al	2.5	9.5	0.26
	2.75	4.5	0.61
Knetsh & sinden	1.28	5.18	0.25
	Average		0.27
	Median		0.24

Source: Cummings et al, quoted in Pearce D.W. and Turner R.K. (1990)

It can be seen that willingness to pay (WTP) for a better environment is generally much less than the willingness to accept (WTA) compensation. Conventional economics views this as an asymmetry between gain and loss, and concludes that 'people systematically value losses more highly than equivalent gains' (Knetsch, 1993).² It is suggested in this note that this paradox may rather be a result of the under valuation of public goods relative to private goods.

If a person pays for a better environment (WTP), the benefit is a 'public good'. This is because, a better environment is communally enjoyed with others. In contrast, the compensation (WTA) for a bad environment goes into one's own bank account, and is therefore a private good. In short, WTP goes into the 'atmosphere', while WTA goes into one's bank account. WTA results in private gain, whereas WTP results in public gain³. If public gain is valued less than private gain, WTP will be less than WTA. Willingness to pay for improvement will be less than compensation claims for damaged environment.

Social consciousness cannot be directly measured, whereas WTP and WTA are quantitative measures. This suggests that the latter can be used to measure the rate of socialisation of consciousness.

Column 3 of Table 1 calculates the ratio of WTP to WTA. This, as we have argued, represents the ratio of valuation of public gain to private gain, for an equal environmental change. It is suggested in this note that this ratio (WTP/WTA) may be used *an index of the rate of socialisation of consciousness*. If it is zero, it indicates that public gains are not valued at all. This shows complete individualism. On the other hand, if the ratio is equal to one, it indicates that the individuals are indifferent between public gains and private gains. This mental state denotes an indifference to property forms, and the absence of property consciousness. It may be therefore termed as harmonious socialisation.

Column 3 of the tables calculates the rate of socialisation (WTP/WTA) from different estimates. It can be seen that the average rate of socialisation is 0.27, and estimates usually range from 0.08 to 0.38, with two unusual exceptions.⁴ The 95% confidence limits for the average rate of socialisation also range between 0.18 and 0.38. Thus, we may conclude that the average rate of socialisation in developed capitalist countries does not seem to exceed 0.38. This suggests the dominance of private property consciousness in spite of some socialisation of consciousness.

Although, this note uses WTP and WTA to measure the rate of socialisation of consciousness, it is not the only approach to the problem. The latter can be measured by the difference in valuation of any quasi

public good, which can also be privately supplied and enjoyed. Individuals can be asked to value equal quantities of public enjoyment of the good, and private supply of the same good. The ratio of the two valuations will measure the rate of socialisation of property consciousness.

It is worth investigating if the estimates of the rate of socialisation change systematically over time, and between developed and underdeveloped countries, or between communities. In conclusion, it may be noted that a low rate of socialisation of consciousness is associated with the failure of many co-operative/public/collective property based experiments in India. Estimates of the rate of socialisation of property consciousness may therefore help to cast partial light on the relative successes of these movements in some regions and communities and their failure elsewhere.

References

Hammack J. and G. Brown (1974), *Waterfowl and Wetlands: Towards Bioeconomic Analysis*, Baltimore, John Hopkins University Press.

Hanley N. (1989), "Using Contingent Valuation to Value Environmental Improvements", *Applied Economics*, 20, 541-9.

Pearce, D.W. and R.K. Turner [1990]: *Economics of Natural resources and the Environment*. Harvester Wheatsheaf, New York.

Hanley N., J.F. Shogren and B. White (1997), *Environmental Economics: In Theory and Practice*, Macmillan India.

Endnotes

1. A third reason for undervaluing publicly supplied goods may their poorer quality than private goods. This may be a result of 'tragedy of the commons' noted by Garret Hardin, wherein each individual tries to escape from his contributions to the deterioration of the commons, relying on the anonymity supplied by the crowd.

2. Different explanations have been offered to explain this gain-loss asymmetry (e.g., Pearce and Turner, p157, Hanley *et al.* p. 396).

3. Public gain is a benefit that is communally enjoyed, unlike private gain.

4. These are Brookshire *et al.* and Hovis *et al.* estimates that yield a rate of socialisation of 0.64 and 0.61 respectively.