Reform of Management System of China's Natural and Cultural Heritage Resources

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Abstract. There are two modes of management of natural and cultural heritage resources in China. One is market-dominated and the other is government-dominated. The economic theoretical source for each mode is Coase theory and Pigou theory respectively. However, the phenomenon of over-development and destruction of heritage have being occurred under both modes in practice. As a special kind of resource, the protection and sustainable development of heritage could not be separated from the market mechanism and government's participation. Only the organic combination of the two modes is the correct direction for the reform of China's natural and cultural heritage management system.

Introduction

In recent years, with the rapid development of China’s economy and the continuous increase in income, tourism has become an important way to meet the people’s growing material and cultural needs in China. Due to its unique geographical and cultural features, natural and cultural heritage has become the preferred tourist destination for many tourists. According to the present laws, the ownership of natural and cultural heritage in China belongs to the country and is owned by the entire people. Under the premise of national ownership, the tourism development and protection of the heritage is managed by special government agencies.

Before the reform of the market economy in China, the economic value of the heritage was not obvious. The management purpose of heritage was to reserve a group of precious natural and cultural resources for the country, providing a place for various scientific researches and cultural activities, and undertake a small amount of reception and tourism visits task. After the reform of the market economy, with the increasing of the economic value of the heritage, heritage development has become a tourism industry that can bring a huge profit. Then there are two management modes developed in the practice. On the one hand, under the guidance of the logic of “state-owned means state-operated”, local governments established state-owned companies to be responsible for the development and operation of the heritage together with the original government agencies, and two organizations actually share the same managing team. This model is called the government-dominated model. On the other hand, in the underdeveloped central and western regions in China, because of the slow economic development and the lack of investments for heritage development, the local government transferred the right of development and operation of heritage to non-state-owned companies through market mechanism, which is called the market-dominated model.

Both models have resulted in many problems in practice. On the one hand, the original intention of government-dominated mode is that the government, as a representative of the interests of the public, can reflect the public welfare of the heritage and avoid excessive exploitation and destruction of the heritage resources. However, in practice, problems such as non-division of government and enterprises, serious executive monopoly have arisen. In order to strive for political achievements, government officials and managers of state-owned development companies often regard the economic benefits brought by the development of heritage as the main objective while ignoring the protection of heritage. On the other hand, the original intention of the market model is to transfer the right of the heritage development and operation to the market, introducing market capital to make up for the lack of investments of heritage development, and protect the heritage better. However, the nature of seeking profit of capital has not been effectively controlled in practice. In order to maximize
profits, the phenomenon of over-development and destructive exploitation of heritage has occurred time to time[1]. Therefore, the present situation of the development and protection of heritage in China fell into a dilemma. Actually, the theoretical essence of the debate between the two models is that, as a special kind of resources, which kind of mechanism should be taken in the development of the natural and cultural heritage, one is the Coase mechanism characterized with clear property rights and market-oriented, the other is Pigou mechanism characterized with nationalized and government-dominated.

Resource Characteristics of Natural and Cultural Heritage

Public Resources

In practice the natural and cultural heritage is objectively embodied in mountains, rivers, forests, and other resources, which are actually inseparable. It means that the use of individuals does not rule out the simultaneous use of other people, namely their use is non-competitive and non-exclusive. Therefore, heritage resources have the characteristics of public resources in economic sense, and their improper development may lead to the “tragedy of the Commons.” In order to avoid the “tragedy of the commons”, the answer given by the economic theory is the institutional arrangement of private-owned or state-owned for public resources. As for the heritage resources, on the one hand, the heritage resources usually have a large scale. On the other hand, as a common crystallization of nature and human activities, the heritage resources should undoubtedly be the common wealth of the entire human world. Therefore, its ownership is usually in the form of state-owned ownership.

Externalities

As a public resource, heritage protection has strong externalities. The so-called externality refers to the influence of a subject's economic activities on other subjects who are not involved in the activity. Externalities can be further divided into positive externalities and negative externalities. Positive externality means that the subject’s economic activity brings benefits to another subject and he cannot be compensated for himself. Negative externalities are just the opposite. The subject’s economic activities have caused losses to other subjects, and the loser has not been compensated[2]. The protection of heritage has strong externalities. On the one hand, heritage resources have a strong positive externality, which is not only beneficial to the local people of the heritage sites, but also of great value to all people in society. Everyone can enjoy the beauty of the heritage and obtains a sense of national pride and collective identity. On the other hand, improper development of heritage will destroy heritage resources and bring serious negative externalities. The destruction of heritage resources will not only harm the interests of contemporary people, but also the interests of future generations.

Natural Monopoly

The formation of heritage is due to the geological movement of the earth for millions of years and the accumulation of civilization in the long history of mankind. Therefore, its distribution has a natural dispersal, with strong regional characteristics. There are no two identical heritage resources in the world. It is the uniqueness of heritage resources that makes them have a special attraction for tourists. Further, due to the uniqueness of heritage resources, it has become a scarce resource and has economic scarcity. The scarcity, uniqueness, and regionality of heritage resources determine the natural monopoly of heritage management, and the lack of effective competition within a certain range may bring excess monopoly profits to operators.

Pigou Mechanism and Coase Mechanism

Pigou Theory

Pigou is a well-known welfare economist in the United Kingdom. In his book Welfare Economics written in 1920, Pigou proposed the theory that market failure caused by externalities, public goods,
and monopoly should be solved by the government. The “invisible hand” needs help from government. Pigou believes that the emergence of externalities is caused by inconsistencies between marginal personal costs (revenue) and marginal social costs (revenue). Due to the existence of externalities, the market output will deviate from the optimal one of the society. The simple market mechanism cannot correct the market failure caused by the externalities. At this time, the government needs to interfere with the market mechanism and adjust the allocation of resources through the government tax, so as to the marginal personal cost (revenue) is equal to the marginal social cost (revenue). Finally, the allocation of resources meets efficiency standards. According to this theory, Pigou insists that the government should intervene in the market and nationalize public utilities such as water supply, power supply, railways, and regulate monopolies, limit monopoly profits through government fix-pricing. All is to ensure full market competition. Pigou's theory provides a theoretical basis for the government interfere of the market economy, and so the government's taxation of externalities is called the “Pigou Tax”.

Coase Theory

The key point of Coase's theory is the Coase Theorem. In 1960, Ronald Coase published his famous paper Social Cost Problems. In this paper, Coase criticizes Pigou’s theory of externality and believes that externality has mutuality, that means one behavior will bring benefits as well as cost. Therefore, when dealing with externalities, we must not only see the social costs brought about by externalities, but also consider the benefits it generates. Whether or not to allow externalities to occur is based on the social costs and social benefits of externalities. To illustrate this issue, after analyzing examples of mutual infringements between farmers and neighboring ranchers, Coase argued that “it is necessary to know whether the injuring party is responsible for the damages caused, because without the initial definition of property rights, there would be no market transactions of the rights. If the pricing system runs at no cost, the result is not affected by the legal institutions.” This content was later summarized as the Coase Theorem. The so-called Coase Theorem means that if the market transaction costs are zero or enough low, the efficiency of resource allocation has nothing to do with the initial allocation of rights.

It means different initial arrangements of property rights will result in different efficiencies of resources allocation [3] in real world since the transaction costs are very high there. After the Coase Theorem arise, many scholars thought that the government should not intervene in the market with externality issues such as environmental pollution and public resources management, instead of clarifying the property rights of resources and solve it by the market mechanism. Under the premise of clear property rights, property owners will allocate resources through market negotiations and eventually achieve effective allocation of resources.

Reform of China's Natural and Cultural Heritage Management System

Coase theory and Pigou theory support the market-dominated mode and government-dominated mode of the management of natural and cultural heritage respectively. However, as mention above, both modes led to the over-exploitation of heritage and the destruction of development in practice. The reason is that both modes have certain drawbacks:

On the one hand, the government-dominated mode advocated by Pigou theory thinks that the government should nationalize the operation of heritage development to avoid the “tragedy of commons”, natural monopoly and externality issues. But the premise of this mode working is that the government is the real defender of public interests, while modern economics believes that the administrative monopoly caused by the government power is often more harmful than the economic monopoly.

On the other hand, Coase's theory holds that heritage development should introduce market mechanisms, but it is difficult to play a role in the reality of China. Firstly, the current law institutions in China stipulates the ownership of the heritage must be state-owned and does not allow private possession. Secondly, the natural monopoly of the heritage itself may cause the market failure. Lastly, what Coase theory emphasizes is an imaginary world with zero or very low transaction costs but
transaction costs cannot be zero in the real world. Therefore, even if the property rights are clarified, heritage resources may not be able to achieve efficient allocation due to excessive transaction costs in the real world. In summary, the direction of the management system reform of natural and cultural heritage in China should be the combination of the Coase mechanism and the Pigou mechanism. That means it should be a “mixed system” created by combining the market mechanism with government regulations. This kind of mixed system includes:

Firstly, the ownership of the heritage is separated from the right of operation, and the right of operate should be tradable. Actually, a property rights is a bundle of rights, which includes various rights such as ownership, right to use, to benefit, to dispose, and various rights can be owned by one subject or by many subjects separately. According to the theories of market economy, the efficient standard of resource allocation is to allocate resources to the subject who value it most. Therefore, the tradability of property rights is the premise of resource efficient allocation. Although China does not allow the transaction of ownership of heritage, the ownership can separate from the right of operation. And then the right of operation can be traded. This will undoubtedly promote the transfer efficiencies of heritage resources. Therefore, the mechanism in which the ownership of heritage separated from the right of operation and the right of operation are tradable is not only conducive to the efficient allocation of heritage resources, but also can achieve its precious value. Moreover, it also helps to break the administrative monopoly of existing heritage development in China and avoid the inefficiency and social welfare losses.

Secondly, strengthen government regulations. On the basis of separating the ownership of the heritage from the right of operation, the government is required to change the operational functions and strengthen the regulatory functions. It means the government should act as the owner of the heritage, change the functions of directly participating in the heritage development to strengthen the regulation and service functions. On the one hand, legislating on heritage development should be perfected so that the laws of government regulation can be followed, transparency of information can be achieved, and information asymmetry can be eliminated. On the other hand, an independent and unified regulatory agency should be established to strengthen the supervision of the heritage developers and prevent their opportunistic acts such as excessive development of the heritage.

References