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OK SELLING THE NATIONAL FORESTS:

A PRELIMINARY ANALYSIS

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During the past few years the Sierra Club and its allies have come to an agreement with those in the forest products industry. It seems clear, in fact, that nearly all parties agree that the National Forests are not being "properly" managed. In brief, this means that none of the various competing interests feel that the National Forests are managed for them. From this we can infer that the Forest Service has not been "captured" by any single group. Thus, given that the Forest Service has responsibility for substantial and highly valued resources and that it has great managerial discretion, we may be confident that the various interested parties will continue efforts to impose their policy preferences upon the decisions of the Forest Service.

New policy decisions shift costs and benefits. In effect, property rights in forest resources are granted and revoked without normal negotiation and without full compensation. Thus, the policy making process is inherently conflictual. As applied to the National Forests, new policies can be fostered in two broad ways. The first, we might call "intramural." In this case the fundamental congressional acts are accepted. Within these constraints the various interest groups as well as interested individuals attempt to influence the Forest Service in its exercise of discretion. For example, the forest supervisor might be encouraged to restrict snowmobiles from a winter feeding area or to refrain from road building on a watershed feeding a prime trout area. In localized cases of this type, at issue is the emphasis placed upon the various uses and values that are produced within the forest. A similar "intramural" process might occur at the regional or national level where representatives from the various interested groups might prevail upon

the Forest Service to give greater weight to their concerns. Under these circumstances one factor that might reasonably come into play is the threat of changing the congressional mandate or "rules of the game" under which the various parties, including the Forest Service, operate.

This second possibility may be viewed as an attempt to change the range of discretion available to the Forest Service, or, as in the case of the Multiple-Use Sustained Yield Act of 1960, to codify and hence to defend and secure the amount of discretion available to the Forest Service.^{1/}

The so-called National Timber Supply Act of 1969 was an effort to channel policy making within the Forest Service in a particular direction, in this case toward greater emphasis on timber production.^{2/} In contrast with this aborted effort is S1592, the McGee Clearcut Moratorium Bill. The impact of this bill would also be to limit the discretion of the Forest Service, by prohibiting the practice of clearcutting on the National Forests for a limited time.^{3/} Its proponents agree that the Forest Service gives far too much weight to the forest products industry and hence the interests of the more general public must be protected. In each of these cases we note that groups with particular interests invoice the political process in efforts to foster policy decisions which advance their claims to rights in the public forests.

In general, all policy making in the American political context follows a similar pattern. Demands are made by individuals or groups upon the political system at some level. The component of the political system responds by ignoring the demands, by converting the demands into public policy, or by strengthening entrenchment in the existing policy. If the interested group is not successful, it can make the demand at what it considers

to be a more vulnerable place within the political system. The above cases are examples of this process.

This brief sketch of political mechanics is included to advertise one point - that current management of the National Forest is substantially dependent upon the effective strength of the various demands placed upon its managers. And these demands may or may not be consistent with the maintenance of what most Americans might view as "high quality" forests.

Conflict regarding the management of the national Forest arises from a simple fact. One cannot maximize the production of one use without sacrificing to some degree some other uses. Beyond certain limits domestic cattle and sheep are competitors for browse with wild animals; logging demands compete with fishing for the maintenance of a given level of water quality. In brief, while some uses are reinforcing, (e.g. logging tends to encourage high deer population) tradeoffs among competing values are an inherent aspect of the management of a public (or private) resource. Within this context it is unreasonable to expect "politics" to be absent from the management of the National Forests.

Proposed solutions to existing management problems range from small changes in criteria or practices to rather drastic changes in the form and function of management itself. In the latter category is a proposal,

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voiced by Milton Friedman and others,- that government agencies should not manage these forests at all. Instead management would be left to private managers and the present value of wealth captured for public use by auctioning off rights (title) to the lands in question, It is our purpose in this paper to discuss the issues involved in evaluating the potential costs and benefits of such a solution, to predict changes which might

occur due to adoption of such a policy, and to comment on the probability of its occurrence.

The effectiveness of management, however measured, depends on the combination of information and incentives facing the decision maker, who has a given level of resources and technology available. Thus the organizational context influences the choices actually made by management by affecting the incentive structure and information constraints within which they operate.

In a market system with private ownership of rights to assets, incentives and much of the information flow are handled through prices. Not only do bid and asked prices convey condensed information on the relative values of alternative uses of resources, but the same prices also give resource owners and managers a powerful incentive to use their resources in the manner most helpful to others. We need not count on good will, morality, or principle: greed will suffice. Within a market context people are of course free to ignore the wishes of others - expressed thru bid and asked prices - but when prices are not distorted, resource users and owners sacrifice wealth exactly to the extent that they ignore those wishes. It is largely the efficiency of prices in transmitting information, and their effectiveness in providing incentive without coercion, which make the market system attractive.

The advantages claimed for this sort of resource management system include diversity, individual freedom, adaptiveness, the production of information, and a certain equity. Diversity is fostered because there is no single, centralized decision maker but many asset owners and entrepreneurs each of whom can exercise his own vision. Those who correctly

anticipate people's desires are most rewarded. Individual freedom is preserved as those who wish to participate in and support each activity may do so on the basis of willing consent. Adaptiveness is encouraged in both management and consumptive activities, since prices provide immediate information and incentive for action as soon as changes are seen. If only a few see scarcities or opportunities ahead, they can buy, sell, - or just provide expertise as a small group of consultants - and thus direct resource use without convincing 51% of the voters (or their bureaucracy) of the advantages of their preferences. In this case profits will reward foresight and quick action, while losses discipline those who divert resources foolishly.

Production of information in a market situation is slowly being recognized for its importance.^{5/} Activities not marketed are proving very difficult to manage rationally for there is little or no concrete evidence of how people really evaluate nonmarketed activities relative to other resource-using activities.^{6/} We know, for example, how much people are willing to sacrifice for a thousand board feet' of lumber of a given species and grade, but how much would they pay for a day's access to a wilderness area? In the latter case we have only rough estimates.

Even the most conscientious and competent manager cannot make good management decisions on resource inputs without knowledge of the absolute and relative values of his various outputs.

Finally, there is a measure of equity in having those people who use a resource, or wish to reserve it for use, pay for it by sacrificing some of their wealth. The proceeds from the sale of public assets could be dis-

tributed, or invested and perpetually distributed to the poor or whomever.

Those using the forests would be required to pay, whether it be for recreation, timber harvest, or even research in a unique area.

Unfortunately, the beautiful picture above does not fully describe all real-world market situations. The prime villain in disturbing the beauty of the picture is what economists and political scientists call "externalities."^{7/} Broadly, this means that asset owners or managers may not be in a position to capture all the benefits or pay for costs of their various actions.^{8/} It is clear that in a market situation there is normally little incentive to provide goods or services that offer no return. If, for example, a forest owner could not exclude those recreationists who did not pay for access, receipts would understate recreational valuation, and he would have a diminished Incentive to preserve or provide recreational opportunity -- assuming the benefits of alternatives uses, such as timber harvests, are fully captured by the owner. We are confident that among potential externalities (difficult aspects to contract for) are some of the effects of flood control, watershed provision, weather modification, animal habitat, biotic diversity, and environmental buffering. These effects might be partially internalized by placing restrictions on the title transfer, constraining the buyers to avoid certain socially costly decisions. But to the extent this happens, the benefits of market organization and Individually expressed preferences are eschewed. In practice we have generally gone much further, leaving management directly in the hands of managers who have relatively little Incentive to listen to or be guided by individual preferences as expressed in relative prices. To summarize

briefly, the existence of externality is recognized by many economists and political scientists as a necessary - but not sufficient - condition for governmental interference with markets to possibly improve efficient

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resource management. 9/ A significant point to remember here is that an important form of externality is pervasive also in all governmental forms of organization. At best, decision makers are held "accountable" by the threat of replacement if their decisions are not desirable to their superiors or to politically influential clientele. They do not, however, receive directly the gains from better management (or declines in resource values from poor management) as private resource owners generally do. This follows, as do market externalities, from the fact that property rights are attenuated.^{10/}

Many resource managers find the above anti-market argument based upon externalities - both positive and negative - sufficient to justify departures from market determined resource utilization. Another tack, however, is taken by some of those who criticize market results. If people generally don't know what is best for themselves, then they make bad decisions in a market. In contrast, if bureaucrats are making the decisions while working under political representatives, the people may be "saved from themselves". It is quite clear to some that from this perspective the average man demonstrates bad taste in preferring developed recreational areas to pristine wilderness. The fact that many people will pay much more for a cabin near the former than near the latter is clear evidence to them that "common" people should not be trusted to manage their own affairs. The fear that fewer wilderness areas might exist if the relatively few users had to pay for the

resources withheld from other uses, understandably disturbs wilderness buffs. An assumption implicit in this position is that people who make unwise decisions in the market place make wise decisions at the ballot box.

Another group of people opposing the sale of forests to private operators recognizes the desirable and undesirable aspects of private management, but object precisely on equity grounds. Many of us in the West who use national Forests extensively are greatly subsidized. We realize that we would have to pay for what we now get free, or at reduced cost. Such subsidies are much more likely to be provided (especially to the relatively wealthy recipients) when they are hidden by the lack of cash transactions that characterize many of the uses of the public forests. A private manager's desire to allocate resources where they are most valued and to extract the maximum rent might be inconsistent with our continued subsidy.^{11/}

In summary, there are three major arguments against market management. The first is that externalities may be great enough to overcome the advantages of using prices to transmit information efficiently and to provide noncoercive incentives for effective management. Problems of externality in governmental operation typically are ignored by people accepting this argument. The second is the argument, essentially elitist, is that people's preferences as expressed in the market are wrong. Thus, good managers and policies must be selected through governmental action. In this manner we may expect to improve upon the results of market choices. A third factor, not often stated publicly, is that the current subsidy given to

many users of natural resources (such as national forests) would be made explicit and hence might be reduced If a market system of resource management were introduced.

What effects then could we predict if our National Forests were sold and if forests were operated by governmental units only when those units paid for forests as they pay for other resources? The first and most obvious impact would be a large revenue windfall to the government. Some of this presumably would be reserved for continued public provision of forest access and improvement. The costs of these services would, however, be explicit rather than hidden as currently is the case. The (presumed) reduction in public provision of forest services at low or zero cost to users would mean a transfer of real wealth from forest resource users to the beneficiaries to the programs subsequently increased. Thus, forest users would more often pay for the resources they withdraw from alternative uses.

A second impact would be an increase of forest use of the types people are willing to pay for. Simultaneously, information would be produced on just how each competing forest use is valued by people. Some forest areas would no doubt be subject to very intense development for use by masses of people with preference for easy access and comfort. Also, however, some wilderness areas could be expected to be more strongly protected than now, as some entrepreneurs catered to those willing and able to pay for access to pristine wilderness. Just as we have restaurants of all kinds, in about the proportions people want and will pay for, we could expect an immense diversity in forest use and perhaps even the development of use patterns not yet attempted, as private owners tried to increase the usefulness (value) of their land.

A change not to be expected is a shift to strictly short-sighted goals, such as immediate exploitation of logging potential to the expected detriment of long-run productivity in the land. The owner of a forest may be 50 years old and expect to live only to 70; but, even if he wants to leave his heirs nothing, he will maximize his own returns by managing the forest in such a way as to maximize long-run expected value. He would thus sell out when he wants cash and would receive expected market value. Of course, if timber prices are expected to rise less rapidly than other prices, due perhaps to expected development of wood substitutes, then immediate harvest may make sense both privately and socially, depending on timber growth rates, and the effects of timber harvest on alternative forest land uses. Only in those cases when the private owner cannot capture increased values of better management, as in the case where recreationists can't be charged for their use of land, will private owners be more "short sighted" or "lacking in vision" than government managers might be.

In the absence of constraints upon private owners, a new set of externalities would likely become important. While government operations stifle creative activity, adaptiveness, and response to important efficiency questions by making the benefits of these attributes and actions inaccessible to the decision maker, private operation reduces responsiveness to politically expressed desires. Thus the costs of poor watershed or recreation management will not fully accrue to the private operator unless property rights are enforceable at reasonable costs. That is, if the benefits of better watershed management or enhanced recreation opportunities do not redound directly to the private forest owner to reduce law suits or reduce cash receipts, the private forest will most likely be mismanaged.

In summary, three kinds of effects are expected. First, one kind of externality is exchanged for another. Both benefits and costs (except extra work) of nearly all improvements in management are external to governmental managers. Diversity and adaptiveness, if they mean more work or risk, are probably more likely with private than with public management. Secondly, income is redistributed from those who now use forests without paying full costs to the beneficiaries of newly expanded government programs or tax cuts. The third kind of change is the production of valuable information, as users compete in the bidding for resources formerly allocated by decree or other non-market methods.

The net desirability of selling our national forests, then, depends on judgements as to (1) which set of externalities is most acceptable, (2) whether the general public, rather than the forest users as such, deserve the value produced by public forest lands, and (3) how valuable the extra information produced by market operation, on relative values of competing forest land uses, actually is. Further research hopefully will shed light on questions (1) and (3), but (2) is basically a value judgement, so that research could at most indicate the size and distribution of changes in wealth.

As we noted in our introduction, however, the management of our public lands is inherently political. It is compellingly obvious that the mere consideration of a change in the form of management as drastic as that discussed will generate political heat. Thus we might reasonably expect powerful and possibly diffuse resistance to this alternative. It seems clear that many classes of forest users are so highly subsidized

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by the general public that they might be made worse off by this change.

Examples of such groups would include cattlemen who receive grazing rights far below market rates, and certain logging firms, who have reportedly exercised oligopsony power in obtaining stumpage at less than what would be the prevailing rates. Several such groups have recurrently demonstrated political skill in affecting policy. While often in opposition, in the case at hand they would have strong incentive to work in concert. The political strength of these groups is formidable. Finally, we must consider the position of the Forest Service (as well as the Bureau of Land Management) and other governmental agencies. Given the propensities of bureaucracies for survival and growth, and the political dexterity occasionally evidenced by the Forest Service, it seems certain that they would offer formidable opposition to the sale of the National Forests. In view of the bias inherent in their position and their natural advantage of access to data, it seems quite possible that even without the direct aid of their clientele interest groups, the Forest Service could block legislation aimed at the sale of the National Forest.

On the other side of the ledger, those who would strongly support this kind of proposal are less easily identifiable. Certainly those entrepreneurs who saw the greatest potential return from given types of forest services (and who thus could outbid others for the resources without giving up all the expected value of the resource) could be expected to support such a proposal. If revenues from a sale of forest were ear-marked for specific projects, then the beneficiaries of those projects also could be expected to support the change. Among consumers of the forest

services however, the extent of support would depend heavily on the results of study into projected patterns of actual use and the prices expected to accompany those patterns. For example, Sierra Club members might even be expected to support private ownership if it became apparent that the really pristine wilderness experience in America, like bird hunting in Britain, is best preserved in a private setting. If back packers in general became convinced that the development of high density recreational areas, which reduced the pressure on wilderness areas, would proceed much more rapidly with private development, than they too might endorse the notion of private management of large blocks of forest.

Concluding Remarks

The authors are convinced that: a) current management institutions leave serious problems of efficiency and equity unsolved, b) misconceptions abound concerning the nature of a market solution to this problem, c) a simple market solution, unbounded by continuing government intervention of some sort, would involve serious externality problems, and d) the empirical information needed to predict and compare the results of increased use of the market mechanism is largely unavailable now, so that much empirical research is called for. We hope that this paper has illuminated the issue and raised the sorts of questions that might stimulate research in this important area.

¹ Multiple Use Sustained Yield Act. Statutes at Large. Vol. 74 (1960), p. 215.

² The original legislation was rewritten by the House Agriculture Committee "...to provide for more efficient development and improved management of national commercial forest land in order to increase the annual timber harvest and to establish a high timber yield fund." The rewritten bill was called the National Forest Timber Conservation and Management Act of 1969 (HR 12025--91st Congress), and was reported out of the Agriculture Committee on November 18, 1969 (H Report 91-655). Despite being granted a rule by the House Rules Committee, the bill was never brought to debate because the House rejected, by a 228-150 rollcall vote, the rule under which the bill was to be considered. The vote reflected the lobbying of such "conservation interests" as the National Rifle Association, the United Auto Workers, the Izack Walton League, the National Audobon Society, and the Sierra Club. Interests supporting the bill were the National Association of Home Builders, the National Forest Products Association, the United Brotherhood of Carpenters and Joiners, and others. Thus the so-called National Timber Supply Act of 1969 was killed on the House on a procedural vote.

This paragraph is based on: "Conservationists Kill Increased Federal Timber Cuts", Congressional Quarterly Weekly Report, Vol. XXVIII, No. 10, March 6, 1970, pps. 695-597. The quote is taken from: "Timber Supply", Congressional Quarter Weekly Report, Vol. XXVII, No. 49, December 5, 1969, p. 2491.

³ U.S. Congress, Senate, A Bill to Establish a Commission to Investigate and Study the Practice of Clearcutting of Timber Resources of the United States on Federal Lands, S. 1592, 92nd Congress, 1st Session, 1971, p. 5 (Sec. 6). For more information on clearcutting and its regulation by Congress (including McGee bill), see "Clearcutting: Pressures on Congress for Decision", Congressional Quarterly Weekly Report, Vol. XXX, No. 10, March 4, 1972, pps. 492-496.

⁴ Milton Friedman, Capitalism and Freedom (Chicago: University of Chicago Press, 1962), p. 31. See also Edwin D. Dolan, TANSTAAFL (New York: Holt, Rinehart and Winston, Inc, 1971), Chapter 7 ("Preserving the Wilderness: Public Interest or Special Interest?"), especially page 92.

⁵ For importance of price system in providing information in our American market system, see Robert L. Bish, The Public Economy of Metropolitan Areas (Chicago, Markham Publishing Company, 1971), pps. 9-10.

⁶ For an explanation of this problem, see Richard A. Musgrave, The Theory of Public Finance: A Study in Public Economy (New York: McGraw Hill Book Company, 1959), p. 10.

⁷ Discussions of externalities, public goods, and monopolies (see Footnote 8 for introduction of public goods and monopolies) abound in the literature of political economics. William J. Baumol, Welfare Economics and the Theory of the State (Cambridge, Massachusetts, Harvard University Press, 1965), pps. 24-36 is a summary of literature "On the Theory of Externalities".

Robert L. Bish, in The Public Economy of Metropolitan Areas (Chicago: Markham Publishing Company, 1971) discusses "Externalities" on pp. 18-25; and his discussion of "Public Goods" on pps. 25-30, cites several other good discussions of public goods. Richard A. Musgrave, The Theory of Public Finance: A Study in Public Economy (New York, McGraw Hill Book Company, 1959), discusses "external economies or diseconomies" on page 7. Francis M. Bator, in an article entitled "Government and the Sovereign Consumer", discusses the role of monopolies in market failures. The article entitled, "Government and the Sovereign Consumer", Private Wants and Public Needs, ed. by Edmund S. Phelps (New York W.W. Norton and Company, Inc., 1965), pp. 118-133, discusses on pps. 123-131, the role of monopolies in the market system. Elinor Ostrom, in a mimeographed paper entitled "On the Variety of Potential Public Goods" also discusses these issues, with frequent citations to past work. These are some of the discussions of the issues in the literature of public economy.

⁸ (See Footnote 1 on page 6 of the paper).

⁹ William J. Baumol, Welfare Economics and the Theory of the State (Cambridge, Massachusetts Harvard University Press, 1965, pps. 19-22, discusses this point and the whole book is a discussion of the proper role of the state. Paul W. Barkley and David W. Seckler, Economic Growth and Environmental Decay (New York: Harcourt Brace Jovanovich, Inc 1972), chapters eight ("Market Failure Externalities") and nine ("Market Failure Collective Goods"), are discussions of this subject. And Elinor Ostrom's paper "On the Variety of Potential Public Goods" (N.D. Indiana University) also deals with this problem.

¹⁰ (See footnote ¹⁰ page 18 of paper) For an excellent discussion of attenuated right in this context, see "Property Rights Within Government and Devices to Increase Governmental Efficiency," by Roland McKean in S.J.E. Oct 1972.

¹¹ See p. 8
¹² Walter J. Mead, in Competition and Oligopsony in the Douglas Fir Lumber Industry (Berkeley and Los Angeles: University of California Press, 1966), documents this statement as applied to stumpage.

Add to footnote 4:



Rep. Wayne Aspinall (D, Colo.) submitted
in 1972 a bill (H.R. 7211), which would
have allowed the sale, under certain conditions,
of some public lands including National Forest Land.
The bill died in committee.