



## **Tentative List of Some Uneconomic Aspects of B.C. Forest Policy**

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*NB Under Faustman, higher L.V. call for shorter rotus. Normalizing, this means less cap/land. Thus clearer land calls for less cap! However, this may be more than offset by higher L.V. calling for higher Co.*

TENTATIVE LIST OF SOME UNECONOMIC ASPECTS OF B. C. FOREST POLICY

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1. Compulsory low-grading, at high net cost

Rationale:

- fire control
- multipliers and secondary benefits downstream
- improve site for later planting
- offsets the bias to high-grading inherent in high stumpage

Negative:

- costs more than value, a net loss. Crown absorbs the loss in lower stumpage
- multipliers are only gross, there is little net multiplier benefit
- the wasted costs would probably produce greater multipliers if used efficiently to produce greater output, in forestry or other industries. In the extreme, no output, no multiplier.
- the multiplier argument, if valid, would apply to most other activities as well, so all should be subsidized.
- a subsidy to one activity requires a tax on others. (If the "tax on others" were land-based rather than activity based it would not dampen other activities, and this criticism would fall.)
- the tension between the loggers' self-interest and the compulsory low-grading requires heavy policing costs, occupying a large share of F.S. personnel. The tension is increased by basing stumpage and/or royalties (where significant) on gross volume removed from woods, regardless of harvest costs.

2. Stumpage charges levied by Crown on licensees are based on spot price in nearest market less costs, so stumpage fluctuates, in the short run. (Very much? It has been denied.)

Rationale:

- Crown shares price risk with licensee
- volume of logging is steadier
- reinforces other measures forcing licensee to produce steadily.

Negative:

- licensee produces at same rate in low market as high, has no incentive to hold back wood until it is needed.
- presumably someone downstream then performs the storage and inventory function and gains greatly therefrom because we set him up for it by denying ourselves the potential gains.
- it is cheaper to store timber on the stump than after harvest.

3. Stumpage is based on gross volume, regardless of logging cost?

Is this true? Half-true? Detail needed. ~~Not true, says JJ.~~  
*Half true. It is based on averages for stands, so subec. wood pays same as other.*

4. Forced decentralization. B.C. divided into about 60 PSYUs. Allowable cut from each is about 1/80 of acreage, or less, based on putative future rotation ages, aiming toward future normalized age-distribution and constant flow of mature timber.

Rationale:

- force population away from Vancouver, thought to be too large and crowded
- "community stability" fostered by creating and sustaining a level yearly flow of logs in each PSYU. "Sustained yield" does not mean merely reforesting land, but staggering uneven-aged trees to normalize forests and supply constant volume of maturing timber.

## Negative:

- good, financially mature timber near markets on good land is held stagnant, while social capital is sunk into reforesting marginal land at very low rates of return, and into marginal infrastructure; and heavy costs are incurred to cut marginal and submarginal timber, and foster marginal communities, and link the scattered isolated communities.
- There is little benefit in 80 years of stability. Labor turns over completely in a few years. Mills are amortized in 12 or so. The mill values being stabilized are small next to the values of timber being wasted for their benefit.
- most communities are diversified, especially Vancouver. There is no need to stabilize Vancouver via log supply. Only small, highly specialized communities have this need, and many of them are the products of the very system in question, which they are then cited to justify. It is a circular rationale for a self-necessitating system.
- too much stability fosters obsolescence in mills and perhaps communities, institutions, and people.
- the F.S. imposes its value judgments of where people should live on individuals, w/o adequate rationale.
- cutting the best first, the alternative policy, would not produce the large waves of glut and shortage premised by the rationale for PSYU. Free markets are self-normalizing, flexible, and equilibrating in dozens of ways not contemplated in the PSYU rationale. These should be systematically and sympathetically examined before accepting a catastrophic scenario of market action as the alternative to PSYUs.

If we sold the best first, logging would proceed from better to poorer resources until second growth on the best land gradually became competitive with the remaining

virgin stands. There is nothing inherently or fatalistically catastrophic in this evolution.

→ - The PSYU system is one reason we have no very competitive market for logs. Scattered mills, limited log supplies, leave room for only one mill. The mill owners then can exploit us monopsonistically.

- ✓ - possibly some of the good land tied up in PSYUs has higher non-sylvan uses: in grazing, farming, townsites or who knows what? If it were released to those other uses it would diversify the local economies and stabilize them. Is the F.S. locking out labor from access to some of B.C.'s resources?
- the assumed future rotation period is speculative, and probably longer than justifiable, resulting in a slow cut and fewer jobs. Activity for its own sake is hard to justify (cf. point#1), but activity coupled with increasing rents is doubly desirable.

5. Virtual prohibition of log<sup>and chip</sup> exports

Rationale:

- make jobs in B.C. *Infant industry argument.*

Negative:

- it is an expensive indirect way to make jobs. It is in effect a subsidy to B.C. mills proportioned to their use of logs. If the object is to make jobs, the subsidy should be proportional to payroll, thus encouraging substituting labor for logs -- i.e. stop butchering good logs in understaffed mills.
- we pay the price in reduced stumpage.
- local mills monopsony power is enhanced. This may be the main effect. Thus, we have pulp mills which produce market pulp, but not the more labor-using products like paper.

6. Financial decisions about rotations are made on biological criteria.

## Rationale:

- trees are living things. Forestry is different.
- ultimate values are to be measured in physical terms and units. Dollar values are specious, meretricious and suspect. They represent amoral, commercial judgments based on greed and fast-buck profiteering. Interest costs, particularly, are only an abstraction, a banker's device of usury, and should not be allowed to interfere with good forestry. Good forestry is defined by competent professional judgments of trained foresters who understand the complex plant community.

## Negative:

- Mature and decadent stands are defined wrongly, so that cutting priorities are wrongly assigned. Decadence is conceived biologically, i.e. the volume and quality of wood is falling. But many such stands are financially immature, or even permanently submarginal. If a new road, rail, port, or mill is likely to tap a presently shut-in stand say 20 years hence, then its economic value is growing.

At present we do not insist on cutting "decadent" stands, so the problem here is one of generating a wrong forecast of what would happen if we did. A policy of cutting economically mature stands is interpreted as one of cutting biologically mature stands. Now to cut one stand and sell it retards the economic maturity of other stands, (by lowering spot prices and raising expected future prices.) This automatically regulates the speed of cut and tempers the policy. So a policy of cutting financially mature timber would not generate catastrophic results. But biological maturity is independent of market feedbacks and equilibrators, and policies based on purely biological standards could be economically disastrous.

- reforestation decisions are unexamined.

There is probably too much here, too little there, but who knows? Interest costs are often inadequately weighted, resulting in too little emphasis on fast growth, too much emphasis on maximizing m.a.i.

- the social cost of tying up capital in forests (virgin and growing stock) is ignored. Virgin is held back to achieve a goal of staggered age groups in the far, far future, and the staggering is premised on a rotation designed to maximize m.a.i. Maximizing m.a.i. is what you would do if interest rates were zero, i.e. capital were free.

#### 7. Mills and logging are vertically integrated

##### Rationale:

- high cost of transporting logs
- losses in sorting, marketing logs
- mills need for secure source, firms supply
- seller's need for firm market

##### Criticism:

- prevents development of competition and markets
- frequent sales in small blocks would assure continuous supply, but open up a market.

#### 8. Continuity of existing policies, whatever they may be

##### Rationale:

- the industry is used to them and has vested interests in them.
- communities have been built around them

##### Negative:

- many of vested interests are inequitable and unjust as well as inefficient
- stasis for its own sake is no more defensible than change for the sake of change. There are values in each, and they may just offset each other. So if we need change to be more efficient and just, we should change.

- owing to obsolescence, amortization and turnover, few vested interests should bind us more than a few years at most
- subsidies to stasis or stability are subsidies to encourage longevity of capital. This is the substitution of capital for labor. Labor's interest is in frequent replacement, which employs labor. Labour, as the most mobile factor, has the most to gain by change. Stability is more designed to help owners of capital and land.

9. Withholding production to maintain price:

Rationale:

- B.C. is a large factor in the market and has market power to exploit.

Negative:

- current studies of demand elasticity needed to support position that we have market power.
- long run market power is usually less than short run, and history warns against a weakness to abuse and overestimate this power. Suicidal greed is an oft-told tale.
- current demand is high, and this is a time to sell.  
A monopoly should withhold when demand is weak.
- there are moral objections to exploiting monopoly power.

10. Some tenures are long term, to encourage reforestation

Rationale:

- private firms are better managers

Negative:

- the tenures are not really firm, and incentives to conserve for future are not perfect
- there may be serious abuses, the ostensible intent serving as a front for holding supplies of timber
- civil servants either are or could be efficient managers.