Letters

We welcome letters from readers, particularly commentaries that reflect upon or take issue with material we have published. The writer's name, affiliation, address, and telephone number should be included. Because of space limitations, letters are subject to abridgment.

Conservation and National Forest Management

TO THE EDITOR:

Thomas Lenard has written an accurate, lucid, and important article on the management problems and opportunities of the national forests ("Wasting Our National Forests," *Regulation*, July/August 1981). As Lenard recognizes, he is not the first to criticize the inadequate management and the large-scale hoarding of timber in the national forests. Even Forest Service economists came to the same conclusion several years ago, but their report was suppressed by the Service (only to escape to the *Congressional Record*).

Proposals to increase the timber harvest have also been advanced in the 1973 report of the President's Advisory Panel on Timber and the Environment, in various reports by the General Accounting Office and the Office of Management and Budget, and in the 1979 study ordered by President Carter that Lenard notes. But all to no avail. Timber sales from national forests have declined in recent years, from about 12 billion board feet annually in the 1966–73 period to no more than 10 billion board feet annually since 1975. Though many have called for increasing the harvest, and President Carter ordered it, the Forest Service has steadfastly refused to do so. Like a balky mule, it has lowered its head, absorbed blows on its rump, and refused to move. Mules can be very stubborn, indeed.

I am skeptical that Lenard's article will bring about the needed changes in national forest management. He emphasized that his views were personal, not the official position of OMB (my views, as well, are personal and not an expression of RFF position). But I am glad to see that there is someone within OMB with as clear an understanding as his of the basic policy issues. If change is ever to come in national forest management, it will be in response to forces from outside the Forest Service, and there is no more effective source within the federal government than OMB. . . .

Marion Clawson,
Resources for the Future

TO THE EDITOR:

Present statutory constraints on the management of the national forests can, as Lenard points out, give us "less timber and less wilderness." What he thinks is the culprit, the nondeclining even-flow policy, is not inflexible, however. Exceptions to both that policy and the "culmination of mean annual increment" policy are permitted under the National Forest Management Act of 1976, and surely will be made once plans under that act are complete and the national forests become subject to its rules. Carefully applied exceptions of this sort may meet overall multiple-use objectives. But the wholesale liquidation of our remaining old-growth forests is neither necessary nor the panacea that Lenard suggests.

I agree that the nondeclining even-flow policy is best suited to a "regulated" forest. Most productive industry and national forest timberland are already regulated and no longer support old-growth forests. The most productive sites and most economical locations have already been harvested, many of them long enough ago that a second stand is now approaching maturity. This existing regulated forest base, with adequate investments in intensified management of the better sites on both public and industry timberlands, could easily support the nation's timber demands for decades to come.

Much of the remaining old growth, though representing a high standing volume of timber, is on sites lower in productive capacity than much of the present regulated forest. Yet some still see it as more profitable in the short term to build new access roads and cut large standing volumes of timber in pristine areas than to invest in increasing the productivity of the available regulated forest land. In the Pacific Northwest, where the clamor is loudest for accelerated cutting of old growth, there are industry-owned lands that have been cut over and never properly reforested even though they have a far higher growth potential than the lands generally found in the national forests. With old-growth public timber still available and the Forest Service willing to pick up the costs of decades of management, it can still be cheaper to "cut and run."

Whether maintaining old-growth ecosystems entails the tremendous "losses" that Lenard describes depends on the system of values employed. If we interpret value solely in terms of board-feet or dollars, we will overlook the importance of these climax forests in supporting complex and vital communities of plant and animal species, many of which are already endangered by the loss of habitat from past cutting. Certainly new and highly productive areas of old growth would be brought into production and cut if we permitted "departures" from even-flow. Indeed, considering the cost of investments that yield no return for a half-century or more, simple economic incentives could well direct that *all* old growth eventually be cut. But such an economic analysis is somehow inconsistent with the public mandate, as expressed most recently in the National Forest Management Act. Beyond "social values" and the concern for a "land ethic," the crux of the problem may be that we undervalue these forests by treating them as renewable resources. They are not.

V. Alaric Sample, Jr.,
The Wilderness Society

TO THE EDITOR:

Lenard provides a superior summary of the arguments against current public forest management practices. Forest Service employees are the most public-minded and hard working of all public servants, but they could do a better job if only they would simplify their management objectives (I counted seventeen different objectives in one forest plan) and demand an internal accounting of how each dollar spent helps to further these objectives.

There are a couple of other points Lenard's readers should be aware of. First, Lenard's criticisms apply equally well to timber management by the Federal Bureau of Land Management and by the large state land management agencies. Second, while more efficient timber management nationwide would undoubtedly lead to both more timber and more wilderness, it might also lead to temporary local hardship, as in the case of millworkers and loggers in the inefficient Southern Rocky Mountain forests. I personally suspect we could follow Lenard's prescriptions, compensate these people, and still be better off. Nevertheless, the transition period from current practice deserves attention.

William F. Hyde,
Duke University

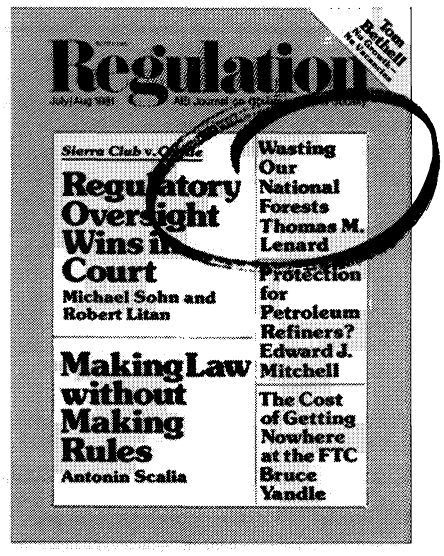
TO THE EDITOR:

The Forest Service's nondeclining yield policy furthers neither economic nor environmental objectives. Nor does it promote community stability, as is often claimed. It is a policy that is totally inappropriate for the old growth that is so extensive in most western national forests.

Those forests contain a huge reservoir of standing timber, far more than is needed for maximum sustainable yields, that is accumulating little or no net growth due to age, decay, and mortality. For those old-growth sites that are to be managed for timber production, the most prudent policy would be to harvest the old trees relatively rapidly in order to reduce mortality losses and enable us to replace them with thrifty young trees that can grow much more rapidly. The nondeclining yield policy makes this impossible. Fortunately, the National Forest Management Act of 1976 permits exceptions to the policy in order to meet multiple-use objectives.

To attain sustained yield at maximum levels in perpetuity a forest must have an even distribution of age-classes of trees, so that as a class matures each decade and is harvested and replanted another class takes its place. Departing from the nondeclining yield policy for old-growth forests will not only permit harvest of more timber, but will at the same time lay the foundation for maximum sustained yield in perpetuity from those forests.

Harvest scheduling should be viewed creatively as a means of achieving desirable objectives for society. Unfortunately, the unbending application of nondeclining yield has too often been viewed as an end in itself—with the Forest Service losing sight of what it should be about. This is changing. As part of the planning process for each old-growth national forest, there will be a rigorous evaluation of departures from nondeclining



yield harvest schedules and of exceptions to rotation practices based on the culmination of mean annual increment.

The only point of difference I have with Lenard is his apparent equating of nondeclining yield with sustained yield. These concepts are *not* the same. Sustained yield is defined by law (16 U.S.C. 531) as "the achievement and maintenance in perpetuity of a high-level annual or regular periodic output of the various renewable resources of the national forests without impairment of the productivity of the land." In contrast, nondeclining yield requires setting today's timber harvest equal to or less than the level that could be cut in any future decade—even if more could be cut in the meantime at no loss to future harvests.

John B. Crowell, Jr.,
Assistant Secretary for Natural Resources and Environment,
Department of Agriculture

TO THE EDITOR:

Lenard makes a persuasive case that current national forest policy falls far short of efficiency. A fixed rule like nondeclining even-flow, however, does provide a form of discipline that might be lost under more "flexible and rational" management. Consider our experience with the federal budget. Once the fixed rule of balancing the budget each year was replaced by the idea of balancing the budget over business cycles, the temptation arose to treat budget balance as a mere "goal" whose achievement could be postponed again and again. Now, even many observers who might favor a flexible budget policy in principle are pressing for a fixed constitutional rule of some sort (balanced budgets each year, spending limitations, and so on) to restore discipline. Similarly, the revival of interest in gold results in part from a search for a way of achieving more stringent discipline in monetary policy.

That a shift in forest policy *could* improve efficiency does not necessarily mean that it *would.* Forest managers freed from a fixed rule might simply yield to the temptation to harvest trees too rapidly. What seems to be called for is a new set of rules more sophisticated than the ones we have now, in order to curb the present inefficiency while guarding against the danger that new kinds of inefficiency might develop over time.

Marvin Kosters,
American Enterprise Institute

TO THE EDITOR:

. . . Conspicuous by its absence in Lenard's article is any reference to the fundamental question which underlies his argument: namely, why do we have a system of state-owned and centrally planned commercial forests in the first place? (Whether to have government-run parks and wilderness areas, it should be emphasized, is a separate issue.) By implicitly accepting this system as given—a political and legislative *fait accompli*—Lenard places himself in the position of endorsing market socialism as the solution. It would also help, he suggested, if the national forests were administered by people sympathetic to this view.

The dearth of successful applications of market socialism suggests that it is a will-o'-the-wisp. Contemporary work in the field of bureaucratic management lends further support to this judgment. Moreover, if market socialism could be made to work as implied, the results would be the same as if the national forests were simply privatized or denationalized.

Under denationalization, easements and regulations—for which there are ample precedents—could ensure that non-marketed "multiple use" benefits would still be produced. The revenue from land sales and the taxes on the buyers' subsequent income and wealth would ensure that the public would not lose from the new arrangement. Indeed, taxpayers would be relieved of the burdens of the Forest Service's deficits and from the high opportunity costs that Lenard notes. In addition to reducing the size of the bureaucracy, denationalization would reduce incentives for vested interests to meddle with management. . . .

In my opinion, the creation of our system of national forests was a historic mistake. The inevitable and desirable downward adjustment of excessive virgin timber inventories that occurred in the United States during the stages of settlement, growth, and development was wrongly interpreted as evidence of market failure. The forestry profession got its start in the United States on the basis of this anti-market belief—which is still widely held.

To take an example, tree farming is unique in that the law in many states requires planting a new crop after the previous one has been harvested regardless of economic justification. Permitting forest land to lie fallow is illegal.

Barney Dowdle,
University of Washington

THOMAS LENARD responds:

It is interesting (and encouraging) that, on an issue as controversial as national forest management, none of the six commenters defends current policies. With the possible exception of Alaric Sample, all seem to accept my description of the problem.

Marion Clawson observes that past criticisms have gone unheeded and that, if change is ever to come, it will be spurred by forces outside the Forest Service. While I agree that outside pressures are very important, I also think it essential that forces within the Department of Agriculture support reform. In this regard, John Crowell's letter, which basically agrees with my description of the adverse consequences of current practices, is especially encouraging.

Crowell correctly draws a distinction between nondeclining even-flow and sustained yield, suggesting that it is the former that is the major problem. While I generally agree, it is important to point out that the goal to which he refers, maximum sustained yield in perpetuity, will not in general be economically optimal if it is pursued inflexibly. For one thing, the level of sustainable yield is not fixed, but depends on investments in intensive forestry, which should be based on cost/benefit calculations. More important, maximizing sustained yield does not maximize the economic value of a forest because it still means harvesting at the culmination of mean annual increment and because it does not provide for slowing or accelerating harvests in response to changing market conditions.

While Alaric Sample does not defend current policies, it is unclear whether he sees a need for change and, if so, in what direction. He seems to suggest that we forget about the vast amount of old-growth timber on public lands and concentrate on intensively managing the existing "regulated" forest base (both private and public), which he believes could easily support the nation's timber demands for decades to come. Since demand depends on price, this statement is not incorrect; the only problem is that the price would be high—in terms of both timber and economic efficiency generally. Contrary to Sample's implication, the losses that I ascribed to current policies were not solely those of timber output forgone. The evidence I cited suggests that there is ample opportunity not only to increase timber production but also to provide more wilderness, recreation, and other goods. I do not agree with the claim that this is inconsistent with current law, which instructs the Forest Service to use national forest resources "in the combination that will best meet the needs of the American people. . . ."

William Hyde suggests that we consider compensating individuals in communities where timber sales might decline under an efficient harvesting scheme. While I agree that the costs of transition should be taken into account, our experience with compensation schemes in a variety of areas—one notable case being the program to compensate loggers adversely affected by the expansion of the Redwood National Park—is not encouraging (for a good review of these issues, see Robert Goldfarb, "Compensating Victims of Policy Change," *Regulation,* September/October 1980). Aside from these problems, I would note that the transition might not be particularly abrupt. In areas where timber sales may not be profitable in the long run, a shift to economically efficient policy should not result in sudden declines, because existing investments, such as roads, are properly treated as sunk costs. Also, as I noted in my article, the current inflexible policies impose similar costs on some communities. I recognize that a change in policy could harm some communities that depend on timber, but I suspect it would improve, on net, the social and economic stability of such communities.

Barney Dowdle suggests that the creation of a system of publicly owned commercial forests was a mistake to begin with and that the solution to inefficient management of the national forests (which he distinguishes from other publicly owned lands, such as parks and wilderness areas) is "denationalization." From an economic point of view, I find it hard to argue against Dowdle's position. I am not aware of any evidence of the type of "market failure" that would justify public ownership in this or, for that matter, almost any other area. As Dowdle points out, less extreme forms of regulation could be used to ensure that nonmarketed "multiple-use" benefits would still be produced. However, he does not discuss the question of what market failures would justify such regulation, nor does he acknowledge the problems that have beset similar regulation in other areas.

Dowdle is correct in saying that my article implicitly accepted public ownership as a political and legislative *fait accompli.* It suggested that we work for change within the existing framework. However, if current policies persist—with all their inefficiencies—there may be increasing support for the type of change Dowdle proposes.

Finally, Marvin Kosters makes the interesting point that substituting a flexible policy for a fixed rule such as nondeclining even-flow may fail to produce the desired efficiency gains. If, as I suspect, it would be difficult to develop new fixed rules with the desirable features Kosters describes, the two alternatives that remain are: (1) at-

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tempting to apply benefit-cost principles to national forest planning, as my article suggested, and (2) denationalization, as Dowdle suggests. Although I think it unlikely that greater use of benefit-cost principles would not produce at least some gains, the flexibility inherent in such a policy could be misused in the way Kosters fears and ultimately leave us worse off. If economic efficiency principles can't be successfully applied in this area, and if new rules are not developed, the logic of Kosters's argument seems to lead in the direction of Dowdle's prescription.

Aid for Independent Petroleum Refiners

TO THE EDITOR:

Edward Mitchell ("Protection for Petroleum Refiners?" *Regulation*, July/August 1981) makes crystal clear that there is no case, on equity or efficiency grounds, for compensating independent (nonintegrated) petroleum refiners for their loss of price-controlled domestic crude. Mitchell also answers national security concerns by noting that the most likely supply interruption that might occur, a loss of Persian Gulf crude oil, would add to the current excess of refining capacity throughout the world.

The national-security argument for protecting the independents is even weaker than it appears. Protection would take the form of a direct subsidy to the independents or a tariff on imports of refined petroleum products. In either case, refined product imports would fall and domestic refining output would rise. But the rise in domestic refining activity would require more crude oil, available, at the margin, from overseas sources. On a first approximation, therefore, the subsidy or tariff would cause imports of petroleum products to be replaced by imports of crude oil, without significantly reducing our total imports of petroleum. The tradeoff is without apparent national security benefit.

The only circumstance in which replacing crude imports with product imports might weaken our national security is if a world disruption were to involve significant destruction of refineries abroad. But the major sources of our product imports are in the Caribbean, Western Europe, and Eastern Canada, and the probability of a refinery disaster in those regions is, as Mitchell implies, far less than the likelihood of a Middle East crude oil interruption.

Protection is defensible, moreover, only if the probability of a refinery disaster is high enough to justify the costs of protection. These costs were estimated by a Department of Energy study in 1980 at $500 million a year in real resources, and $12 to 14 billion a year in transfers from consumers to producers and government. It is doubtful that these costs are outweighed by national security benefits; even if they are, still greater benefits must surely result from spending equivalent sums on military support for the regions in question, rather than on shoring up failing domestic refiners.

It is also worth noting that oil supply shortfalls—whether of crude or of products—tend sooner or later to be spread around the globe in proportion to each region's petroleum use. As long as we import any products from anywhere in the world, a cutoff of product exports from one area will ultimately cost us our proportionate share, even if our imports from that area are initially zero. The process unfolds as those experiencing cutoffs (and relatively higher prices) bid other existing sources away from their former recipients.

The national-security case for protecting independent refiners has frequently been based on the claim that the new product imports will come not from secure areas, but from the Middle East. Arab OPEC producers are also said to be planning to force buyers to take both their crude and their refined products, thereby extending the cartel to include refinery operations. This argument originated in a 1979 study by Henry Schuler for Melvin Conant and Associates, and has been widely cited since, from the columns of the *Wall Street Journal* to the halls of Congress.

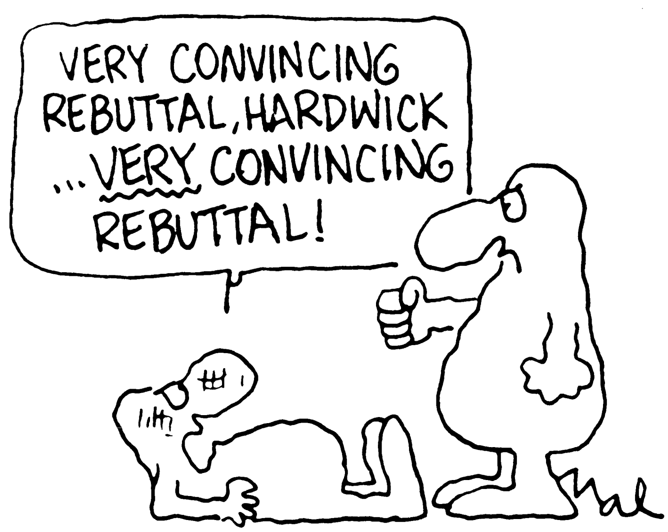
Space does not permit a full rebuttal to Schuler's claim here. Briefly, the Energy Department's annual surveys of the world refinery industry provide no evidence whatever of any significant entry by OPEC producers into the refining export market in this decade.

The underlying argument is that a monopolist can extend his power by tying sales of a product in which he has monopoly power with sales of a product in which he is a competitor. This argument is specious. If OPEC producers were to tie in refined products with their crude, they would sell more product but less crude. OPEC is a low-cost producer of crude, but its comparative advantage for refined products is no greater, and possibly less, than that of numerous other countries. OPEC's total sales of petroleum—crude plus product—would be essentially unchanged, its costs higher, its profits lower, and its total leverage over consuming nations no greater than before.

George Horwich,
Purdue University

TO THE EDITOR:

The old Emergency Petroleum Allocation Act (EPAA) may have just expired, but a new "Son of EPAA" is now being promoted in Congress by Senator McClure and Represent-



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ative Sharp. Most members of Congress and Department of Energy personnel would probably agree that the original EPAA was a poor law, drafted amid crisis and controversy. Still, the current replacement bills duplicate many of its worst features.

As Mitchell points out, the non-integrated refiner wants the best of both worlds: to buy spot crude when it is cheaper than crude sold under long-term contract, and to get preferential allocation of other firms' contract supplies when the

spot cost goes up. In theory and practice, the EPAA was ideally suited to deliver on both counts. It required one group of refiners to pay massive subsidies to another group —with the recipients commonly receiving tens of millions of dollars, and a few of them receiving hundreds of millions in all.

These subsidies were mainly designed to support inefficient and unprofitable companies. As such they were a drain on both efficient companies and the whole economy. A few examples of EPAA subsidies in action will amplify Mitchell's arguments.

One form of subsidy known as Delta/Beacon relief guaranteed the eligible refiner a certain profit no matter how poorly he operated. Since the guaranteed profit was calculated either as a fixed profit margin or as a return on total investment, there was no incentive to control costs—and capital expansions only brought in more money.

Many companies sought to stretch even these generous limits. Some managed to extend the guaranteed profit to returns on non-oil portions of the business, such as an insurance company subsidiary. Others transferred funds to non-oil parent companies from their refining subsidiaries. (The subsidiaries would then require additional relief to make up for the lost capital.) The dollar volumes were enormous. While the EPAA was in force, Amoco alone paid out nearly half a billion dollars for special subsidies, over and above a total of 2 billion dollars in crude oil equalization payments.

Subsidized companies came up with now-legendary ways to siphon money from other productive firms. In one notorious case, a firm had disregarded the Energy Department's frequent warnings that a short-term subsidy was to be phased out, had expanded its refining, pipeline, and terminal operations as demand dropped, had increased its number of marketing outlets, and had even depleted its funds by buying a Sun Valley, Idaho, ski resort. The department spent twenty-nine pages of a thirty-one page report analyzing why this firm did not qualify for relief. Then, on the thirtieth page, it graciously ignored its reasoning and noted that the company had become dependent on exceptional subsidy relief and would suffer without it . . . so it awarded the firm the exceptional relief.

Inequities were also common among the subsidized firms. On one occasion, two very similar firms presented almost identical evidence that their crude oil costs exceeded the industry average. One firm had been able to operate profitably in spite of the disparity; the second was losing money. DOE granted relief to the inefficient firm and denied it to the other—presumably on the grounds that it must have been doing something right.

The worst result was the distortion of investment incentives. A survey once showed that during a twenty-four-month period new subsidized, inefficient refineries were coming on stream at the rate of one a month. The funds that went to build and subsidize these refineries could have been used instead to upgrade efficient refineries to process vastly more plentiful low-cost, low-quality crudes—which would have reduced U.S. vulnerability to cut-offs of premium grades. . . .

Decontrol was and remains the only practical answer.

Jerrold L. Levine,
Amoco Oil Company

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(Signed) William J. Baroody, Jr., Publisher