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This on-line version differs from the printed Proceedings 2004.  
Ragnar Jonsson's paper is included in this version, but is missing from the paper copy.

# **Fund Substitution and the Public Cost sharing of Non-industrial Private Forest Investments in Finland 1983-2000**

Mika Linden\*  
Department of Business and Economics  
University of Joensuu  
&  
Jussi Leppänen\*\*  
Finnish Forest Research Institute

## **Abstract**

A model of public cost sharing of non-industrial private forestry investment is proposed to describe substitution between non-industrial private financing of investments and public investment assistance. Substitution depends on the curvature conditions of forest investment function on forest stock. When the second order investment effects are close to zero or when they do not exist, the funding substitution will not take place. Simultaneous econometric model for non-industrial private and public funding with forest incomes, forest income taxes, interest rates, investment scale, and market wood price expectations as exogenous variables is estimated. The model estimation with Finnish regional data in period 1983-2000 rejects the substitution alternative. A 10% increase in non-industrial private investment funding increases public funding demand with same rate but a 10% increase of public funds increases the private funds supply 2.4%. Significant income effects are found only for non-industrial private funding. In northern Finland scale effects are large for public financial assistance. Interest rate and price expectation effects are negative.