Evaluating the Costs and Benefits of Good Intentions

Forestry Sector Intervention: The Impacts of Public Regulation on Social Welfare. *By Roy G. Boyd and William Hyde. Ames: Iowa State University Press, 1989, 306 pages.*

Reviewed by Michael Percy

Government intervention in the forestry sector of most industrialized economies is pervasive, often well intentioned, and, more often than not, unsuccessful in achieving its stated objectives. Policies aimed at correcting market failure often exacerbate the problem and in many instances assume market failure when none exists. The magnitude, as well as the distribution, of costs and benefits that arise from government intervention in the forestry sector is often difficult to quantify. The difficulties in evaluating the impact of public sector initiatives in forestry derive as much from the complexity of the regulatory framework and data constraints as they do from the failure of investigators to adopt the appropriate methodology.

In seven case studies of the U.S. forestry sector, Boyd and Hyde tackle head-on the problems of specification and quantification in assessing the impact of government intervention on economic efficiency and income distribution. The book is an outstanding success in terms of the interest and breadth of the topics considered, the clarity of presentation, and the care exhibited in tightly integrating the analytical framework and data requirements into the topic under consideration. Each chapter is accompanied by a comprehensive set of references to the public policy issues, methodology, and data.

The authors are demanding—the book is analytical and presumes a strong background in microeconomics. It is also probably one of the best applied microeconomic texts one could use in a graduate or senior undergraduate forest economics course. The assumptions of the various models are very clearly set out, and tremendous care is taken to ensure that the corresponding econometric or quantitative analysis is consistent with the underlying model specification. Moreover, the methodology employed in each of the chapters readily generalizes to other applications. I had little difficulty in using the study in a graduate course as a framework for assessing equivalent Canadian topics. In each chapter, when reviewing the particular policy objective and mechanism of intervention, the authors highlight the salient features of the problem, such as market failure or underlying allocative and distributional considerations, and provide a generic methodology appropriate for similar classes of problems and associated government intervention.

The authors evaluate seven basic forest sector interventions by Federal and State governments. State forest practice acts, technical assistance programs, price reporting services, minimum wage and occupational safety and health regulations, the Jones Act, taxation, and public ownership of forest lands are assessed in terms of success in achieving stated objectives and the accompanying distribution of costs and benefits.

The results of the analysis are striking, confirming what other authors have found regarding the net economic benefits and distributional consequences of government intervention in the forestry sector. Space precludes a detailed review of their findings. With the exception of the price stabilization objectives of the Timber Mart-South, however, the welfare effects of government intervention are negative. For example, a case study of Virginia's forest practice act suggests that it has had no discernible effect on standing timber inventory. Nonetheless, it entails administrative costs of $150,000 per year. A case study of the Federal Forestry Incentive Program (FIP) and Technical Assistance Program (TA), which ingeniously combines a general equilibrium model with survey data for North Carolina, finds that the net social costs per year of FIP and TA are at least $947,800 and $303,000, respectively. The authors' study of public timber management and deviations from market criteria for harvest scheduling finds substantial net social welfare losses and large-scale income redistribution from consumers to producers, from returns to public lands to owners of private timber stocks, and among private timber producers in different regions. The case studies generally indicate that the distributive impact of these policy interventions is often contrary to stated objectives and to what U.S. society would view as desirable. The main beneficiaries tend to be wealthier landowners, more highly paid workers, and Canadian lumber producers while the burden falls on small private producers, lower wage employees, consumers, and Federal and State taxpayers.

It is always the prerogative of a reviewer to second-guess the choice of case studies in such a volume and to ignore the time and space constraints facing the authors. My own preference would have been to see one additional topic discussed. An analysis of the net welfare impacts and distributional consequences of trade barriers to forest products would have highlighted the important role of international trade in the domestic forestry sector. These barriers can range

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from export restrictions on logs to a tax by the Canadian Government on softwood lumber exports from certain provinces to the United States As a consequence of the 1986 softwood lumber dispute, for example, government intervention will likely be prompted by distribution considerations Concern over tropical deforestation and proposals for boycotts of tropical timber or the imposition of import taxes make analysis of the links between the United States and the international markets of continuing interest The introductory chapter might have provided an overview of the salient features of the forestry sector and a context for the case studies to follow

I highly recommend this book to anyone with a strong background in economics and who is interested in a thorough and dispassionate analysis of the variety of channels through which government intervention affects the forestry sector This volume should become an essential feature of reading lists for senior and graduate forest economics courses