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Subject: FFAC: Forest Economic Contribution

Dear Federal Forest Advisory Committee:

Here are some comments on forest economics issues that are on tomorrow's agenda.

The timber industry will probably always be a part of Oregon's economy, but it is a waning industry which faces intense competition from other regions. Hopefully in the future resource extraction will occur mostly on private lands. Public lands should play a different role, providing "public goods" like clean water, carbon storage, recreation, and wildlife habitat that are not provided very well on private forest lands. Oregon's economic performance and overall public interest would be best served if we relied LESS on the timber industry and we focussed instead on growing and nurturing other parts of the economy, so that the economy would be more diverse and resilient overall.

Here are some thoughts to consider before placing too much reliance on the timber industry as an economic savior:

- The "economic base model" is outdated and is not the proper way to look at the forest industry but the timber industry still relies on it to mislead Oregonians and overstate the contribution of the wood products industry to our economy. See the summary pasted below, explaining the serious problems with the economic base model. ODF must stop using th economic base model and "multipliers" to the exclusion of other more accurate and inclusive ways of looking at our economy.
- USFS economist Richard Haynes: Because current markets are imperfect, "Markets are a barrier to sustainable forest management. ... This places advocates for improved forest

management in the uncomfortable position of supporting more regulation to insure progress towards SFM."

- Market imperfections such as "externalities" and "public goods" mean that prices do not reflect the true cost of production; costs are shifted from the timber industry to the public; there is therefore over-production of wood products from mature & old-growth forests; and under-production of public goods such as clean water, wildlife habitat, and carbon storage. Due to these externalities, timber industry interests have diverged from the public interest. Public policy must correct these market imperfections by limiting harmful logging, not increasing it.
- We can't rely on the market to motivate sound forest management because if fuel reduction must pay for itself by removing larger logs, profit will conflict with both habitat objectives and fuel hazard objectives.
- "Comparative advantage" taken too far amounts to detrimental economic dependence.
- Lack of economic diversity makes Oregon's economy more vulnerable to problems with interest rates, housing, etc.
- One could argue that further growth of the timber industry will impede economic diversification and harm Oregon's economic performance.
- It makes no strategic sense to prop up a waning industry, especially when doing so will harm other industries that are more likely to grow if we better preserve Oregon's forests and quality of life.
- Wages in the rest of the economy are growing faster than those in forest sector.
- Employment: adoption of new technology is displacing workers. That's good for mill owners but not necessarily good for workers.
- Future stumpage price growth is expected to slow due to over-supply and shift to lower-valued products from young trees harvested from plantations.
- Global competition places heavy downward pressure on wages and employment.
- Global oversupply and bursting housing bubble also placing significant downward pressure on prices and employment.
- Political uncertainty has to be factored into the economic equation. The public will not stand for more inappropriate logging of federal lands. Any scheme to increase commercial logging of large and old trees will be risky and uncertain at best.
- The economic alternative to cutting down trees to make products, is not just tourism. It's quality of life, which is a huge selling point for highly educated highly mobile retirees and workers and those who want to employment. Quality of life supports a wide spectrum of industries, not just tourism.
- Conservation also enhances ecosystem services that contribute to the state's infrastructure like road and schools. Some ecosystem services may be marketable, e.g., carbon credits, but we have to protect forests more than business-as-usual currently allows.
- The "forest cluster" approach is viewed by some as just a ploy to build a political and economic alliance to achieve timber industry objectives like "active management" even in "protected forests," delisting coho and murrelet, biomass subsidies, etc. This is not in the public interest.

Krone, Haynes, Reyna. 1999. Different Perspectives on Economic Base. Research Note PNW-RN-538. April 1999. http://www.fs.fed.us/pnw/pubs/rn_538.pdf

Limatations of Economic Base Models

Among the drawbacks of using an economic base model to describe the current level of economic welfare in an area are the following:

1. A simple measure, such as the number of jobs or amount of labor income, reveals little about the **quality of jobs** in the various industries. In other words, even though one sector may have more employment or higher wages than another sector, it may have **higher safety risks, less chance for advancement, and embody fewer job skills** easily transferable to other sectors.
2. Economic base models tend to focus on the industries that export physical goods and leave out those that **export services** or attract people who then consume local services. A classic example of this second type of industry is recreation and tourism.
3. The role of nonbasic industries in stopping leaks from an economy through **import substitution** is not adequately addressed.
4. The importance of **nonlabor income** to an area is not captured. Rasker (1995) found that nonlabor income accounted for 34 percent of personal income in the project area in 1993.
5. Implicit in the economic base model is the assumption that people follow jobs; in other words, people locate in an area because of the job opportunities available in that area. An alternative assumption is that **jobs follow people.** This is the assumption behind the quality of life model, which holds that **people locate in high-amenity areas based on quality of life considerations and that industries follow**, believing that workers will accept lower wages in order to remain in these high-amenity areas.[fn 5] This second thesis regarding the genesis of employment opportunities is not addressed in economic base models.
6. The **externalities** (costs not borne by the producers or consumers of a good or service) associated with various industries are not captured; for example, if an industry generates a large amount of pollution, the economic benefits of increasing employment in this industry may be outweighed by increased degradation of the environment or the increased costs of maintaining a given quality of the environment.

Because the economic base is essentially a static portrayal of current conditions, while economies are inherently dynamic, base models fall short for planning purposes or for predicting the future economic structure of a region in the following respects:

1. Base models do not reveal the relative volatility of industries; for example, **some industries may be sensitive to external forces such as macroeconomic cycles, interest rates,** world prices, and even weather conditions. In contrast, other industries may be insulated from these influences.
2. A single snapshot of the basic sectors in an area does not incorporate the dynamics of these sectors in the larger context. A county having a large amount of its base employment in an **industry that is waning,** may want to undertake a very different development strategy than a county with most of its base employment in an expanding industry.
3. General trends, such as labor-saving **technological change, increasing importance of education** in determining wages and income, and changing demographics, may influence the number and types of jobs created (lost) in the future when a particular industry expands (contracts). Because such trends are not reflected in economic base models, predictions based on these models may be skewed.

[fn 5] Niemi and Whitelaw (1997) use the phrase "the second paycheck" to represent "the value to residents of the various amenities contributing to the quality of life in the area, including

access to social, cultural, and environmental amenities, access they would not enjoy if they lived elsewhere" (p. 31).

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