

IS THERE A FAIR WAY
TO PERPETUAL
WOOD SUPPLY?

By
Craig A. Giffen

A Thesis
Presented to the Faculty
of the
School of Forestry
Oregon State College

In Partial Fulfillment
of the Requirements for the Degree
Bachelor of Science
June 1947

Approved:

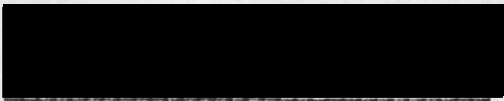

Professor of Forestry

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
THE NEED FOR PERPETUAL WOOD SUPPLY	2
Definition of Terms	2
Past History	2
Stabilization of the Local Community	2
National Timber Supply	3
Conservation of Other Values	3
Profitable Private Forest Management	3
HOW TO GET PERPETUAL WOOD SUPPLY	4
Leave to Private Enterprise	4
Private Consolidation	5
Public Aids	6
Tax Reforms	6
Public Forests and Taxation	8
Payments Similar to Those of AAA	10
Insurance Subsidization	10
Better Protection	12
Low Interest Rate Loans	13
Tariffs	15
Timber Sales	16
Research	17
Market Help	18
Summary of Public Aids	18

TABLE OF CONTENTS - Continued

	<u>Page</u>
MACHINERY TO INSURE RESULT OF PUBLIC SUBSIDY	20
No Control	20
Need Regulation	21
Who Gets the Gate?	21
United States Holds Trump Card	21
O and C Cooperative Sustained Yield Units	22
Monopoly Charge	22
Individual or Nation?.....	23
Public Regulated Monopoly	24
U. S. Forest Service Sustained Yield Units	24
Promote Inefficiency?	25
The 20-80 Proposal	26
Could This Be An Answer?	26
CONCLUSION	27
LITERATURE CITED	29

INTRODUCTION

Much has been written extolling the virtues of sustained yield, but until recently only meager, half-hearted attempts at its attainment have been practiced in the woods. Just within the last ten years has any public action been authorized in furtherance of the ideal. Only within the last two has definite action been taken to initiate a program of reaching effect.

The purpose of this paper is to investigate the means by which sustained yield might be obtained and then to review the methods now under proposal. An attempt is made to analyze and evaluate present programs in an effort to find the fairest way to perpetual wood supply.

THE NEED FOR PERPETUAL WOOD SUPPLY

Definition of Terms

What do I mean by "perpetual wood supply" and why is such a situation desirable today? A definition of the phrase and an answer to the question is logically required to justify the pages that follow.

By "perpetual wood supply" I have in mind a condition that will make possible the continued satisfaction of our national and individual requirements of wood and wood products at a price in accord with a respectable standard of living. This definition is essentially synonymous with that of the overworked "sustained yield". Ideally, of course, the supply should be of desirable species and well distributed with regard to transportation facilities, production centers, and markets. Regardless of how well these conditions are satisfied, the following considerations will apply even if only our over-all wood supply is to be sustained.

Past History

Past history is clear. Justly or unjustly the former tactics of lumber barons have been paraded before us until we now realize that past practices, to say the least, are not what they should have been. The important lesson is that we have now arrived at a point where we must choose between a program of sustained yield timber crops or a gradually increasing scarcity of wood products. The latter condition, in turn, would adversely effect the life of every citizen.

Stabilization of the Local Community

The benefits of a perpetual wood supply are familiar to us all.

Stabilization of local communities looms high on the list. Under proper planning there should be no excuse for deserted towns, lost investments, disrupted lives, and all the rest. When seventy to eighty percent of the taxable wealth of an area is lost, when the majority of families find themselves cut off from a source of income, and when investors discover that their investment is nothing more than a carrying charge, what chance is there for continued community operation?

National Timber Supply

Not only does depletion of a local resource effect the immediate community, but if added to similar results elsewhere, the entire nation may ultimately feel the pinch. Any fair-minded person must think not only in terms of present supply but also with an eye toward the rights and property of posterity.

Conservation of Other Values

Aside from the timber production aspect, an area of forest land on sustained yield will automatically provide other forest benefits -- benefits that are too often lost and irrecoverable if the land is sacked. Soil, recreation, watershed, wildlife, and climatic values are very real assets and should not be ignored.

Profitable Private Forest Management

Finally, and it is this point which should most appeal to the private timber owner, perpetual forest production, under the right conditions, can be far more profitable than one-cut liquidation. Admittedly there are deterrents to sustained yield. These will be discussed in a following section as will suggested remedies that should make perpetual forestry more feasible to the average timber owner.

HOW TO GET PERPETUAL WOOD SUPPLY

We have reviewed the virtues of a permanent wood supply and agree with almost anyone that such a situation would be a fine thing. No one publicly opposes sustained yield in principle. What then are the means by which perpetual crops can be encouraged on a private enterprise basis? In other words, how can we get sustained yield?

Leave to Private Enterprise

One school of thought insists that any sustained yield program must be left entirely up to private industry with no interference from public agencies.¹ It claims that the cost of such a program would be financed by the industry and that, consequently, no burden would fall on the taxpayers. Proponents of this school state that their program would be more flexible and could more easily adapt itself to local conditions than could either federal or state dominated plans. They say that private industry has the background of theory and practice so necessary to the success of any program -- while public agencies are familiar with theory only. These people point with pride to their section of the National Recovery Act in which they claim to have attempted self-regulation. They forget to mention, however, that they were not agreeing to this regulation only for their health.

There are several questions that come to mind as the above arguments are presented. In the first place, is there the slightest evidence that the industry really wants self-regulation -- real regulation? They will not initiate it now, they say, because there is already too much governmental interference that hampers them. Suppose that such "hamper-

ing interference" were eliminated -- does past history or even present attitude indicate that perpetual wood supply would then become a reality? I hardly think so. A few large timber owners may actually believe in sustained yield -- undoubtedly they do -- but they do not control the rest of the industry. The majority of operators are not ready to voluntarily enact such a program, they are not convinced that such a program would pay (and in many cases it would not), and they are not responsible for the interests of posterity.

And one more point -- the industry might recall that much governmental "interference" is a result of requests from the industry itself. Public land policy, tariff laws, and fire protection legislation are just as surely "interference" by the government in industry as is the "hampering interference" of which we hear so much. Now I wonder whether industry would be willing to forego this interference as well as that which they consider to be detrimental. If not, the proposal sounds very much like a one way trip -- on the gravy train.

Now I am not opposed to industrial self-regulation in principle. I think it would be a fine thing if democratically applied, but I question the capacity of the industry to carry it through. I do not believe the risk is good enough to justify the price they insist is necessary to initiate the experiment.

Private Consolidation

Private consolidation of timber holdings into units of sufficient size for permanent forest operations might be an aid to sustained yield. As far as I can see, this plan could take either of two forms, (1) co-operatives of small owners, or (2) purchase of small tracts by large owners for addition to their already substantial holdings. I can hardly visualize the first plan working at all. The timber business is

notorious for its independent members with their independent attitudes. Such a scheme would require a very high degree of cooperation to make it workable.² It is good theory but of questionable value from a practical standpoint.

The other plan -- that of large owners buying up smaller holdings -- strikes me as being directly opposite in desirability from the preceding proposal. Instead of being sound in theory and difficult in practice, this plan is of doubtful social value but very much a possibility in the business world. In fact, such a policy is being pushed at the present time by some of our largest timber companies. This plan may be conducive to sustained yield but it results in the same old story -- the biggest get bigger and the smallest get smaller.

Public Aids

Another school of thought insists that the public must subsidize, either directly or indirectly, if sustained yield is to be practiced by private owners.

Tax Reforms

Tax injustices are one of the most persistent cries of timber owners. Undoubtedly, some very poor forest tax laws have been on the books, but it appears likely that taxes have received an unfair share of the blame for liquidation. Taxes are only a part of carrying charges and are usually second in importance to interest on capital. Forest taxes are generally either of the property or income (yield) type.

Straight property taxes are levied on land and timber every year and are definitely a factor in speeding liquidation. After all, if timber on the stump costs a man something every year to keep it there, he is not going to hang on to it longer than necessary. An exception to this condition would occur only if value from growth or increased

stumpage price kept pace with pyramiding carrying charges.

An added difficulty of the property tax is that the assessed valuation of the property is often determined by an inexperienced person and is apt to be far from the true value.

Now there are several schools of thought as to the justification of a property tax on forests. It is claimed to be unfair to tax virgin timber over and over again year after year. Why should timber owners pay taxes on 700 years of growth every year?, some people ask. Why not just pay a property tax on the soil and a yield tax on the crop at harvest time? This plan would be comparable to most agricultural tax systems and would be conducive to better forestry. It could still justly tax away profits made from cutting unearned increment from virgin stands.³

There are those who feel that standing timber should pay taxes year after year just as other forms of wealth are expected to do under the property tax.

Yield taxes, on the other hand, are paid only at the time timber is cut and yields an income. Since the annual taxes under such a plan are usually small and apply only to the soil, there is less pressure to liquidate the timber.

The factor determining whether an owner prefers a straight property tax or a yield tax probably depends on whether he considers the soil (soil value theory) or the soil and timber (forest value theory) as his capital. If the former, he would logically line up with the yield tax proponents; if the latter, he should side in with the property tax boys although he probably would not unless he was operating on a sustained yield basis. To a sustained yield operator it may be immaterial which tax system is used as any taxes can be paid out of current income.

Some states have adopted a nominal acreage (annual) tax in

conjunction with an important severance tax.⁴ This is generally in addition to a yield tax. Many of these states have asked the federal government for loans that will enable them to wait for severance tax revenue. This suggestion appears to have considerable merit, but could result in a dangerous situation. If one group of states put its forests under this type of tax set-up and other states did not, it might result in serious regional overcutting in the states operating on a straight acreage tax basis. This would be bad not only for the cut-over states and their communities, but would be felt by the nation as a whole. Incidentally, it is because of such discrepancies among individual states that some people advocate a certain amount of federal supervision over many of these matters. This point will be discussed more fully in the following pages.

It is claimed by some that "the exemption of timberland is justified if a tax is put on forest industries for if there were no forests, the industries would not exist."⁵ This idea might work if all mills owned their timber and there were no independent stumpage. When there are forest owners who simply sell stumpage it would appear that they could escape any taxation under the above plan. I maintain that they should be expected to carry the community tax burden just as surely as anyone who has real taxable wealth.

The State of Oregon has done some good work in connection with forest tax reforms. Oregon now has a reforestation tax of five cents per acre per year which applies to cut-over land. Such a low tax results in keeping many cut-overs in private hands and in growing condition.⁶

Public Forests and Taxation

From time to time it has been claimed that the existence of

public forests forces liquidation on private lands. Only limited importance is attached to the payments made in lieu of taxes by many public forests. Advocates of this idea claim that due to the existence of so much tax-free land the burden falls more heavily on private lands and causes an unjustifiable rise in industrial carrying charges.⁷ They also claim that because of the federal policy of "hoarding" government timber, private operators are forced to overcut their properties in order to supply the demand of the market. There is probably some valid argument in both of these points, but before we accept them entirely, let us see whether the criticism is wholly justifiable.

It should be difficult to see how any fair minded person can condemn the vast holdings of federal and other public timber and at the same time observe private land going tax delinquent. This, of course, may be held to be the fault of public tax policy, and if so, condemnation may be justified. If not, however, there seems to be little point in putting public timber on the tax rolls when private outfits will not hold on to what they have. The effect in many cases, apparently, would be that public lands would stay on the tax rolls only long enough to become logged off. This would not be any solution to the tax problem and would result in extremely poor forestry.

If tax reforms were initiated at the same time as the release of public lands so that private operators could hold them, the plan might have some merit. Carrying a plan such as this very far, of course, would result in nothing less than actual subsidization of private forestry. A point to remember in this connection, too, is that much of the public forest is economically sub-marginal and substantial subsidies would have to be employed to keep the land on the tax rolls.

It is difficult to see the advantage of such a plan over the

present policy of adjusting government stumpage prices so that the operator can make a profit. Under the present system the government grows the timber on sub-marginal lands. Under the proposed system the government would pay someone else to grow the timber and leave him a profit for his trouble. I will take the present plan. Your choice will depend on your own social philosophy.

Payments Similar to Those of AAA

Public subsidization might take the form of payments similar to AAA funds which are passed out in recognition of desirable agricultural practices. They could be awarded to timber owners in return for adherence to good forest practices such as providing for adequate reproduction, utilization of gross growth, stand improvement work, or the maintenance of satisfactory fire protection. These practices, in themselves, would not guarantee a perpetual wood supply, but payments might be provided with the understanding that harvesting from a given unit must take place at a specified time. In this way continued production might be accomplished region by region or even community by community. This plan could be applied to large or small holdings but should be especially applicable to farm woodlots and small timber tracts.

Insurance Subsidization

One of the greatest deterrents to a long term forest investment is the high risk involved in holding timber. Fear of fire is always present and is definitely a factor in forcing liquidation. If insurance at a reasonable rate were available, perpetual forests would be looked upon with more favor. There are only three insurance companies in the United States that write policies on standing timber. These concerns, moreover, limit themselves to the northeastern section of the country and are extremely careful about the risks they take.

On the West Coast no insurance is currently being written on standing timber although it may be secured on felled and bucked logs. Until the 1945 Tillamook burn there was a limited amount of insurance written on stumpage in this region, but since that catastrophe no one has ventured into the field. A major difficulty, according to some sources, is that there are not adequate records from which to determine rates for this section of the country. Then, too, there does not appear to be any private outfit big enough or willing enough to take the chance. It seems as though some public agency, for the benefit of the nation as a whole, must either initiate a program or underwrite some private concern if stumpage insurance is to become a reality. Oregon and Washington both claim they are broke so that leaves the Federal government to do the job.

The necessary thing in this whole insurance program is to get all or the great majority of landowners interested enough to take out policies. This would help build up a reserve for the payment of claims and would scatter any debts of the agency over a wide base. Even so, a private company would have to be underwritten for a time until it could build up a sufficient surplus to carry the risk. Probably a few of the higher risk properties would have to continue uninsured indefinitely because of prohibitively high rates.

A well founded insurance program would effect sustained yield possibilities indirectly as well as by reducing the risk of holding timber. The insurance agency, whether public or private, would insist on effective fire protection. More effective fire protection should, in turn, lower the insurance rate and after a time the two items would become adjusted so that the combined protection and insurance carrying costs would be at a minimum. At the same time risk would be eliminated and liquidation pressure thereby reduced.

With less risk in the business, more capital at lower rates of interest should be attracted to long term, permanent forest investments. This additional capital would add stability and confidence in the industry and should be a psychological as well as an economic aid in the furtherance of perpetual wood supply.

Better Protection

Better public fire, insect, and other damage protection would lessen the pressure on the private owner to liquidate his stumpage. If a private individual can be held to account for carelessly starting a fire on public lands, why should not the public be held responsible for starting one on private lands? There are laws, it is true, that fix this responsibility, but it is of little aid to good forestry if John Jones pays \$25.00 in return for burning up 10,000 acres of good second-growth. The important thing is to save the 10,000 acres, not to fix the responsibility after it is burned.

A certain amount of public protection of private lands should be considered a responsibility because of the inability of the public to prevent itself from burning private timber.⁸ There is a point, though, where the owner does become responsible for protection and if public assistance is provided beyond this limit it takes the form of a subsidy.

Speaking of protection progress, Goodman says,⁹ "This progress is a tribute to federal subsidy based on merit, as exemplified by the Clark-McNary Act. I know of no federal appropriation more economically justified."

During the days of the Civilian Conservation Corps great strides were made in fire and insect protection, not only a few of which were taken on private lands. It is to be hoped that progress will continue along this line if there is a need for such a program in the years to

come. Adequate protection is the backbone of all forest practices and is essential to a safe, long-term timber investment.

Low Interest Rate Loans

The largest of all carrying charges for the average timber operator is interest on the investment. If capital has been borrowed from outside sources, it requires an annual return from the enterprise. Even though capital may have been supplied by the owner himself, he is justified in expecting a return on it just as surely as if he had invested his funds in someone else's business.

One reason for the top position of interest in the total carrying charge is due to the relatively high rate of return required of forest loans as compared with most other industrial borrowers. Banks may demand eight percent from timber owners where four percent might be acceptable from the average industrial organization. Strictly speaking, interest is the return to capital only, and should be of the same rate in any investment. Practically, however, it overlaps the field of profit, as risk often becomes a factor. We speak of risk-carrying and risk-free interest and must recognize that such a situation exists, even though "risk-carrying interest" is a contradictory phrase in itself.

In any event, this high interest rate compounding annually results in pyramiding carrying charges which cannot be allowed to accumulate forever. As soon as the timber owner sees his carrying charges costing him more each year than a corresponding increase in his investment value, he will liquidate immediately to escape a loss. An operation on sustained yield will be more likely to let its timber grow for additional years. It will be paying its way out of current income, will be less likely to have pressure from borrowed capital, and will be more willing to take a lower interest rate on its own capital in

consideration of higher annual returns. The difference, of course, stems from opposite views with regard to what constitutes capital. The liquidator sees his capital as land only and so must have a higher rate of return to equal the income of the sustained yield operator who sees his capital as land and timber and is in a position to demand a lower rate of interest on the higher capital investment. Of the two theories -- soil value and forest value -- either can be used in the practice of perpetual forestry, but most owners are turning to the more realistic soil value concept.

The problem, then, is to get more operators on sustained yield so that, regardless of the rotation, they will consider their investment a perpetual one. In this respect, high interest rates are a handicap in at least two ways. Suppose an owner has a large tract of timber and a sawmill to supply. He is now cutting the mill capacity of 100M board feet per day, but if he reduced his cut to 70M he could go on perpetual production. His investment in mill and timber, however, was made from borrowed capital at high interest rates. This interest keeps compounding and in order to pay it off, the owner must run his mill at capacity. If it were possible to refinance the investment at a lower interest rate while there was still some stumpage left, the owner might then be able to reduce his cut to 70M, carry his interest, and at the same time go on sustained yield. The result would at least partially justify the decreased interest rate because of the more stable character of the organization.

Suppose, in the second case, that this owner could continue his 100M cut if he were able to purchase adjacent land to fill out a sustained yield unit of 100M capacity. Purchasing at the current interest rate, however, would force him to run his mill at over-capacity so that

he could pay off his increased carrying charges. If, on the other hand, money were available at a lower rate, he might then be able to keep his cut within the 100M sustained yield capacity.

To initiate such a program of low rate loans would require considerable risk because of uncertainty as to whether the lower rate would be used to stabilize the industry or whether it would be just a boon to temporary additional profits.

Because of the public interest in such a program, it has been suggested that the U. S. Government would be the proper loaning agency. It could afford the initial risk because of its responsibility for the condition of the nation's forests, and would be in a position to require good practices in return for the loans. The pros and cons of the latter suggestion will be taken up in the following pages.

A limited loan program is now in operation through the Reconstruction Finance Corporation, but its scope, as yet, is very limited.¹⁰

Tariffs

Free traders and protectionists both claim that their program is best for American forestry. The former hold that forest products should be tariff free because by encouraging imports we can conserve our own timber supplies. They also claim that with foreign timber excluded, domestic producers would be apt to liquidate as fast as possible in order to take advantage of the lessened competition. On the other hand, protectionists maintain that freedom from foreign competition will promote good forestry as domestic producers will then be able to demand higher prices. The inference is that this added income would be used in better forest practices.

The late Professor Bryant has summarized the results of past tariff legislation to the American lumber industry as follows:¹¹

"Lumber tariff legislation based on expediency, as has been the usual practice in the past, rather than on sound economics, will not further the interests either of the lumber industry or the public, because it will neither keep foreign lumber from our shores nor provide an appreciable amount of public revenue. The cure for the present ills of our forest products industries will not be found in governmental control of international trade by tariffs or excises, but rather in the establishment of a rational relationship between domestic lumber production capacity and demands for lumber products."

Timber Sales

Public policy with regard to the disposal of national forest timber has come under fire as an alleged deterrent to sustained yield on private lands. Some private operators say they would like to practice perpetual forestry on their lands but find it impossible because they must meet market demand alone while government stumpage sits stagnant. Unquestionably there is some merit to this argument. It is a situation, however, for which private timber owners can partially blame themselves. For decades prior to the present one, lumbermen have paraded up and down the Halls of Congress and in and out of Forest Service offices in Washington in an attempt to keep federal timber off the market.

"We don't want government timber competing in our market. Its not the American way to have government in business.", they cried. Now that the worm has turned, and realizing that they have failed to keep their own lands in production, they decide that it is now the public's duty to make government stumpage available so that it will be possible for them to practice sustained yield. Possibly conditions and attitudes have changed in the past few years so that the present reasoning is justified. Public stumpage, through a variety of programs, is becoming increasingly available today. I feel, however, that close controls should be applied to such transactions to insure practices that are

conducive to sustained yield. I believe we should go very slowly in following the suggestions of some people who advocate actual transfer of ownership to private hands.

One of the difficulties in making federal timber available at a more rapid rate than is currently the case, is the lack of sufficient access roads. It takes both time and money to build roads and more time to change the policy of an agency the size of the Forest Service. It appears as though industry must now take the consequences for its interest in holding government timber off the market until these remote areas can be developed.

It is because of this shortsighted policy of development -- both on the part of the Forest Service and the industry -- that we are now facing an acute shortage of good winter logging shows. This is not a favorable situation with regard to sustained yield production. Where is your community stability if logging and sawmill crews can work for only eight out of twelve months? This condition exists too often already. It is not good.

Research

If sustained yield, or at least forest practices conducive to sustained yield, is to be within the province of small as well as large operators, public research must continue and enlarge. Studies in utilization of waste, harvesting of gross growth, timber improvement techniques, and improved protection methods must be made available to all interested parties. A high hurdle could be overcome if, through some sort of pool or cooperative arrangement, small forest or sawmill owners could reap some of the benefits of the larger organizations. This appears feasible in at least the field of waste utilization, both in the woods and in the mill. The essential point is that small

organizations cannot afford to carry on a research program, but improved practices on their aggregate acreages are far more important to the nation than improved practices on the holdings of a few large companies that can carry their own research organization.

Market Help

Some operators with limited timber holdings refuse to consider sustained yield or good forest practices because of market fluctuations and uncertainties. These people cut only at times of good prices and shut down when the slumps come. If sufficient market information were made available, many of these businesses might find customers during otherwise slack periods and the result would be a more stable operation with more reason to think of the future.

Summary of Public Aids

In summarizing public responsibility to private sustained yield, Billings¹² stated in 1937 that government agencies should assist in fire protection, insect control, and stand utilization through research. In addition, they should press for authorization of cooperative sustained yield units, he said. This latter point has been taken care of through the O and C Act of 1937 and Public Law 273 of 1944. These acts will be discussed later. Billings goes on to say that frills, whims, and discretions of doubtful public value and doubtful private cost should be left out of any regulations that might come about as a result of public aids.

Certain requirements should be made of private operators, he says, and these would include the acceptance of a reasonable management plan, establishment of definite cutting cycles, determination of order of cutting, establishment of definite limitations of the periodic cut, and maintenance in their ownership of the maximum acreage they can carry.¹³

Drake says, ¹⁴ "I would point out that sustained yield returns its major benefit to the public; it should carry public approval and support."

Twenty years ago Munger ¹⁵ summed up the public aid situation as he saw it then. His thought is repeated here not only because of its interest but because it puts a question to us in no uncertain terms. In view of the developments of the past twenty years, is Munger's alternative now due or has it become unnecessary?

"If the public does its part in holding public timber as a reserve, in reconciling forest taxation with timber farming, in sharing forest protection costs, and in furthering more scientific knowledge about timber growing, it will have paved the road to timber farming with plenty of inducements. There will be no excuse then for the lumber industry to forsake its reckless course of timber mining, and to direct its way to timber farming. Should it not take the road which the public has made attractive for it, the Commonwealth in order to save the state its great industry and to avoid the idleness of millions of acres has but one recourse. It must put a barricade across the road of timber mining and force the lumberman into the route of forest perpetuation by penalizing those who practice forest devastation or by compelling forest renewal. May this necessity never come."

MACHINERY TO INSURE RESULT OF PUBLIC SUBSIDY

It seems certain, whether we like it or not, that public money is going to have to subsidize the private operator if we expect sustained yield from private lands. Many dollars are being used for this purpose now -- many more will be needed if the job is to be done right. This brings up the age old argument of how much public control, if any, should be applied in consideration of the taxpayer's dollar.

No Control

One school of thought insists that there should be no strings of any kind tied to this money. "Leave us alone," they say, "the government that governs least, governs best." According to them, any regulation is contrary to the American system of "free enterprise." I cannot accept this story. Just who is this "free enterprise" supposed to be for? Is it the property of a selected few who are free to ride the gravy train at the taxpayer's expense? I do not think so. If a private citizen invests in a business it is expected that he will have a voice in formulating its policy. Why should this voice be lost just because he invests through his government rather than directly?

"Public aid will not be justified merely for the purpose of benefiting individual forest owners. It will be justified only if benefit to the public will result. It should not be regarded as a bonus or gift to forest owners, but as a payment for which value will be received by the public. So far as practicable, grants of public aid should be contingent upon acceptance of restrictions which will insure that the value will be received. In short, private forest owners should not be favored with special privileges or services at the expense of the public treasury, unless they assume corresponding obligations with respect to the handling of their forests."¹⁶

Need Regulation

Because I am convinced that private interests either cannot or will not handle the forest resource on a perpetual basis, I am definitely in agreement with a policy of effective public regulation. The question in my mind is how this regulation can be applied in the fairest way to all concerned. It is not the purpose of this paper to determine the degree of regulation needed. The right to regulate is justified but the degree of control needed will be determined by the results obtained. Suffice to say that any regulatory practices must be equally applied to all operators. Details, of course, must vary with local conditions, but arbitrary assignment of different degrees of regulation to competitive operations would not be justified.

Who Gets the Gate?

The question, then, is not how operations will be regulated, but which operations will be regulated and which will be forced out of business. We will have to agree that in order to reduce our cut to equal our growth some operators are going to be frozen out. This fact seems inescapable. Our mill capacity is just too large at the present time, especially in certain areas. Who, then, are the operators that are going to remain and who will be left holding the bag -- the empty bag? The thorniest problem in the regulation debate is who will have to be "regulated out" of the business.

United States Holds Trump Card

There is a controlling factor which enters the picture at this point and which is fundamental to an understanding of the situation. In the great majority of sustained yield possibilities, federal agencies, usually the U. S. Forest Service, hold the trump card. It is government timber that can either put an operation on sustained yield or force it

into retirement. The \$64 question, then -- to all practical purposes -- is not just who is going to remain in business and who is not, but more specifically, who will get federal stumpage and who will not. Let us review the present policies of government stumpage disposal with special reference to the requirements necessary if a private operator is to obtain it.

O and C Cooperative Sustained Yield Units

The Act of August 28, 1937 (50 Stat. 874) provides for sustained yield management on O and C lands. It also authorizes the Secretary of the Interior to enter into cooperative agreements with federal or private owners of intermingled lands for sustained yield management of all of these lands. Section 115.10 of the regulations sets forth the basic requirements of such an agreement:

17

"The formulation and administration of cooperative agreements shall be guided by a policy of providing the widest distribution of the benefits obtainable under sustained-yield management, and of preventing monopoly.

"A prerequisite to participation in the cooperative agreement covering a sustained-yield forest will be either (a) ownership of land therein upon which timber is growing in commercial quantities, or of cutover and other lands which have been restocked or are suitable primarily for the production of timber in commercial quantities, or (b) sufficient rights or interests in the timber within the unit to enable the holder of such rights or interests to fulfill the obligations involved in commitment to the agreement.

"In each cooperative agreement the parties shall agree, in consideration of the benefits conferred by such agreement, that the forest management of their lands shall be conducted in such manner as may be necessary to effectuate the purposes of the Act"

Monopoly Charge

The point of argument, of course, is that it will be the timber owner with the "mostest" that continues to get the "mostest." The Western Association of Loggers and Lumberers, hereinafter referred to as "WALL", maintain that such a system of choosing cooperators will

result in a monopolistic situation. They wonder why one branch of the government should be involved in fighting monopoly while another branch fosters it. Why not, asks WALL, choose cooperators on the basis of their forest practice record first, instead of using this attribute only as a subordinate point to land ownership? In theory, this point probably has considerable merit and would be far more universally accepted if ownership alone were the controlling factor. Remember, though, that a cooperator, if he is to remain a cooperator, must conduct his lands in such a manner as will effectuate the purposes of the Act.

Remember, too, that you cannot have integrated sustained yield units without a relatively completely blocked land pattern. This forces consideration of ownership, whether it is theoretically just to do so or not.

Individual or Nation?

On the side of the landowner, do not forget that he has been paying taxes and supporting the community for many years and should receive some consideration in this connection.

Many of "WALL's" members are of the fly-by-night variety who intend to operate only during the period of high prices and then shut down. For this operator, I shed no tears. There are, though, some old time outfits who have been operating for many years and who have been practicing as good forestry as anyone else. These people are deserving and should be considered even though they may not own land. If there is no room for them it will be a shame, but the welfare of the nation comes first, and it demands a cut in balance with growth. If the timber owner will agree to prescribed practices, he probably should be given the edge. It is a sorry necessity, but some deserving businesses must go.

Public Regulated Monopoly

In regard to "WALL's" monopoly charge, it should be observed that even without the O and C program, small outfits would soon be cut out and the big boys would eventually end up with most of the land. One might wonder whether it would not be more socially desirable to have these outfits tied to O and C and subject to public surveillance, rather than to have them on their own.

It has been claimed by some that in order to qualify under the O and C regulations, some large companies are acquiring land within the proposed Siuslaw Unit which would ordinarily be purchased by small operators thus jeopardizing the timber supply of such operators. The O and C answer to this charge is as follows:¹⁸

"It may be that the acquisition of forest lands by individual operators in anticipation of entering into cooperative sustained-yield agreements within the Government has taken place to some extent in the proposed Siuslaw Master Unit area. However, any belief that large scale acquisitions of forest lands by operators in the proposed Unit has been made in each case solely in anticipation of receiving Government cooperation is not justified. It is likely that any operator who is sincerely interested in the stability of his enterprise will, within the limits of his financial resources, give serious consideration to the acquisition of forest lands if his present holdings are inadequate even though no cooperative agreement with the Government is in prospect. Thus, extensive areas of immature forests in Oregon have been acquired by operators in recent years. And even to the extent that the prospect of entering into cooperative agreements has been a factor, it should be noted that such operators, whether large or small, are acquiring such lands and timber at their own risk, since such ownership is not necessarily a guarantee that a cooperative agreement with the Government will result."

U. S. Forest Service Sustained Yield Units

Cooperative sustained yield units sponsored by the Forest Service under authorization of Public Law 273, Act of March 29, 1944, are similar in nature to O and C units. It claimed, though, that their

requirements and operation are more flexible, considerable discretion resting with the Regional Office. Only one agreement is in effect at the present time -- with the Simpson Logging Co. of Shelton, Washington.

Promote Inefficiency?

Section three of the contract with Simpson states that the Forest Service shall make allowance for an equitable margin of profit and risk to the purchaser through adjustment of stumpage prices.¹⁹ Because of this phrasing, and because there will be no competitive bidding on the stumpage, opposition has charged that the situation will result in relaxation of company efficiency. H. J. Andrews, Regional Forester for Oregon and Washington, in an address to the Oregon State College Forestry Club assured questioners that no such relaxation will be tolerated. Simpson, he said, will have to show costs similar to those of other companies operating under like conditions.

In answer to the charge that the Shelton agreement is fostering monopoly, Andrews stressed that other companies were given opportunity to take part in the program, but "were not interested." Whether these companies included those in the Tacoma area, Andrews did not say. At the public hearing several Tacoma mills claimed they would be frozen out if the Shelton proposal were put into effect. They say they do not have adequate holdings and depend on a policy of competitive bidding to keep them in production. In this connection -- and in similar situations elsewhere -- it is difficult to see how Simpson could dare relax its forestry standards, even though signed up. With a number of companies standing ready to agree to Forest Service requirements in return for cooperative timber, Simpson will probably lean over backwards in its effort to live up to more than its contract obligations.

The 20-80 Proposal

If there happens to be only one large operator within a sustained yield working circle -- as was essentially the case with Simpson -- it appears that choice of cooperators on the basis of size of holdings is justified. If there are many other operators also dependent upon the area, it is to be hoped that stumpage will not be sewed up by a cooperative contract. Quite possibly this is what the Forest Service had in mind when it determined that only 20 percent of its lands will eventually wind up in cooperative units. The other 80 percent is to be available through conventional timber sale contracts.

Could This Be An Answer?

I think here we may have a satisfactory answer to the small mill question. If enough properly located federal timber can be kept free of long term obligations there will be a definite incentive for the small operator to practice a high type of forestry. The assumption, of course, is that forest practices as well as bids on stumpage will be considered before a sale is made. A program such as this, operating in conjunction with a limited number of long term cooperative agreements, may prove to be a satisfactory compromise between the ideal of distributing federal stumpage on the basis of merit alone, and the practical difficulties encountered by the existence of large private holdings which are essential to the operation of an integrated unit.

In conclusion, I will enumerate a few points which sum up my thoughts on the sustained yield situation as it exists today.

CONCLUSION

1. Public regulation of cutting practices on both public and private lands is essential if we are to attain a condition of perpetual wood supply. This regulation can be justified in return for financial, technical, or other aids to the private operator including the privilege of cutting government timber. Sustained yield cooperative units with government stumpage as bait are essentially an instrument of regulation -- and should be. It is to be hoped that conventional timber sales will fall into this category to a greater degree than is presently the case and will be awarded with increasing emphasis on the merit of the operator as well as on the bid which he submits.

2. I support the stated policy of the Forest Service relative to Public Law 273 and hope that practical obstacles will not cause excessive deviation from this ideal. The policy, of course, is nothing more or less than that of obtaining sustained yield in such a manner as will result in the greatest good to the greatest number in the long run.

3. In theory, good forest practices have as much to do with inclusion in cooperative units as does size. Size alone will not guarantee government timber if practices are not up to snuff.

4. Neither O and C nor the Forest Service is desirous of supporting monopoly in any form. The Forest Service, especially, is leaving 80 percent of its timber available for sales which should be based largely on the merit of the operator. This policy should be extensively and intensively developed.

5. In practice, large ownerships will probably have an edge, other considerations being equal, simply because of the relative ease of

administration and fewer details to fool with. This should make itself felt mostly in areas now drastically overcut. In areas of favorable supply, the ownership argument should be less of a factor.

6. There should always be enough operators in an area to keep the fair-haired favorites on the ball. Public agencies will not take cooperators under their wing to such an extent that anything less than sound forest practices will be tolerated.

7. Regardless of anything we may say and regardless of any exceptions to the case, allocation of large amounts of government stumpage to a single private operator is not the most socially favorable condition conceivable. It does, however, result in the placing of large areas of private lands on sustained yield, which is nationally beneficial, and which might not otherwise be accomplished.

The question, then, becomes -- Is the placing of these large areas on sustained yield worth the price we pay in suppressing business initiative?

LITERATURE CITED

1. Heywood, Frank, Jr., "Industrial Self-Regulation" in Journal of Forestry, Feb. 1941, p. 233.
2. Mason, David T., "Sustained Yield and American Forest Problems" in Commonwealth Review, October 1927, p. 144.
3. Goodman, R. B., "Conditions Confronting the Private Timberland Owners in the Principal Forest Regions" in Journal of Forestry, March 1936, p. 224.
4. Ibid, p. 222.
5. Ibid, p. 222.
6. Munger, Thornton T., "At The Forest Crossroads" in Commonwealth Review, October 1927.
7. Op. cit., Goodman, p. 222.
8. Op. cit., Munger, p. 107.
9. Op. cit., Goodman, p. 222.
10. Hientzleman, B. F., "Substitute for Article X" in Journal of Forestry, March 1936, p. 229.
11. Bryant, R. C., Lumber, 2nd. edition, John Wiley and Sons, N.Y. 1938 -- quoted in Buttrick, P. L., Forest Economics and Finance, John Wiley and Sons, N.Y., 1943, p. 357.
12. Billings, C. L., "What Public Agencies Should Do" in Journal of Forestry, February 1937, p. 136.
13. Ibid, p. 138.
14. Drake, George L., "Adjustments in Private and Public Ownership and Management Necessary to Attain Sustained Yield" in West Coast Lumberman, April 1936, p. 34.
15. Op. cit., Munger, p. 111-112.
16. _____, A National Plan for American Forestry, Senate Resolution 175, 72nd Congress, U. S. Government Printing Office, Washington, D. C., 1933, p. 1040.
17. _____, Siuslaw River Master Unit, U. S. Department of the Interior, Portland, August 1945, p. 2-3.

LITERATURE CITED - Continued

18. _____, Memorandum to the Secretary of the Interior from Associate Director, Hearings Officer, December 9, 1946, p. 4.
19. _____, Shelton Cooperative Sustained Yield Unit and Cooperative Agreement, Forest Service, U. S. Department of Agriculture, Portland, August 19, 1946, p. 3.