LETTERS

Forestry as a commercial activity

Sir,

May I refer to the paper by R. Proctor (Vol. 31(30, p.29) which deals with Government's forest policy.

Many of the underlying assumptions are grounded in the never-was land conjured up by Adam Smith out of his vivid imagination. The fact that the "market-based approach appears to be increasingly adopted by Governments of all political colours throughout the world" doesn't make it any less dubious. Its effects are becoming all too obvious in the USA, Britain, Peru, Mexico, Chile and several other countries.

I will, however, not pursue that question, as I wish to draw attention to Mr Proctor's obviously ambivalent attitude to forestry as a commercial activity producing wood. He states (p. 31) that "there is nothing special about forestry as a commercial activity" but then (p.32) contradicts himself by stating that "the peculiar thing about forestry is the long time between the initial investment and the receipt of cash revenues from that investment." He can't have it both ways; either forestry is like any other investment or it is peculiar.

Moreover (p.32) if an investor makes an investment for 30 years and gets credit for the nominal sum invested at the end of that period it is a very different thing from an investor who invests one-thirtieth of the same sum each year for 30 years, especially if that investor can recoup his expenses against annual sales of produce.

I have for many years been led to believe that economists are incapable of simple mathematics; this paper confirms that view!

C.G.R. Chavasse

Is D.O.C. Director needed?

Sir,

I read with interest that the new Department of Conservation is advertising for a "Director, Advocacy and Extension", in which "total familiarity with the conservation debate is needed". In the position specification, I read: "This functional area will also be the point of contact for . . . special interest and other groups and members of the general public". Responsibilities include "to provide for the interests of the department and conservation . . . " and "to establish and maintain effective mechanisms to foster public and departmental awareness of special conservation needs . . . " and "to provide for effective relationships with and use of the media".

The nature of this position appears to contrast with the directives issued by S.S.C. to the Forest Service last year. Forest Service staff were in effect "muzzled" and prohibited from defending the interests of their department and profession in the public arena.

I suggest that there is little need for a "Director, Advocacy and Extension" in the Department of Conservation, because the citizen interest groups are already fulfilling this role admirably. On the other hand, there is a desperate requirement for such a position in the Ministry of Forestry. I write this letter in the hope that some reader may be in the position to take this matter further.

Piers Maclaren

Discount rates and forestry decisions — a reply

Sir,

Jeanette Fitzsimons (1986) does the discipline of economics a disservice in her critique of cost-benefit analysis in relation to forestry decision making. This arises from a narrow interpretation of economics, and attributing to cost-benefit analysis a stature it should never pretend to attain. In what follows I will attempt to address only some of the more serious errors and misunderstandings. This in no way endorses non-criticized sections of Fitzsimons' article, which include many more deficiencies and errors and show a serious misunderstanding of cost-benefit analysis.

Assumptions of Economics

Fitzsimons lists a set of assumptions which economists are claimed to accept as true. The first of these is that price reflects value to society. By claiming that "This is now rarely true . . ." it is implied that it once was. This has never been the case. The role given to prices **in a perfect market** is as a measure of what other goods individuals are willing to give up to obtain the thing in question. Since market price is determined by aggregate willingness to pay, which is dependent upon wealth distribution within society, perfect market prices are only an indicator of value if it is accepted that:

— wealth distribution is optimal
— social welfare is the unweighted sum of individual welfare, as measured by willingness to pay.

It is on these very strong assumptions that the conclusion that price is a measure of value is founded. Whether we accept them or not is a value judgement.

In claiming that economics assumes everything has a replacement price Fitzsimons has misunderstood the nature of economics. While some resources do not have a "replacement price" because we are unable to replicate them, they do have an opportunity cost. Retaining a resource in any particular use, including its natural state, precludes its use for other things. In our finite world we must compare the value of these uses (the opportunity costs) to determine the best use of a resource. Thus we are forced into comparing values of such "fundamental sources" as food, liberty, and natural environments. Such comparisons are an integral part of **any** decision — they are not exclusively economic or part of cost-benefit analysis.

Contrary to Fitzsimons' assertion, welfare economics, which is that part of the discipline concerned with this type of analysis, does not "assume the reason for forestry is to make money for the investors rather than to ensure a supply of appropriate timbers for the future". Fitzsimons fails to understand the difference between economic and financial analysis; consequently economists do not need a "broader definition of wealth". Economics is concerned with allocating scarce resources in a way which maximizes **social welfare.** It is recognized that there are many values which are not captured by markets, either when markets do not exist (non-market goods) or some values are not part of the market transaction (externalities). Even when market prices exist they are not necessarily used as estimates of value. Since maximizing social welfare is the objective, social benefit and social cost are used as measures of value. These may have no relationship with prices. It is true that economists look at how investors would behave to maximize their profits. This is, however, in a positive sense to determine how market outcomes will differ from some normatively optimal outcome. The claim of neglecting to supply "appropriate timbers for the future" is erroneous. Many economists are concerned with predicting future demands for raw materials from many industries. The problem is one of determining what we will 'need' in the future — how much boxing or sideboards, newspapers or telegraph poles? Predicting future relative prices is one way of summarizing future demands for different types of wood. Economists, especially those with an eye for profit, have every incentive to get these estimates right.

Cost-benefit analysis

Fitzsimons claims that cost-benefit analysis (she calls it NPV analysis) is "too simplistic to make long-term decisions". This statement is not strong enough. Cost-benefit analysis is unable to make **any** decisions. Because of the underlying assumptions already mentioned cost-benefit analysis can only be a means of presenting information to assist decision making. It does help indicate efficient decisions, given the assumptions made, but if these are not acceptable the outcomes will carry little weight. However, even if we agree with the assumptions, cost-benefit analysis will not provide definitive answers. For example, net present values and internal rates of return, which are both indicators of project benefits obtained from applying cost-benefit analysis, will not rank projects consistently. Therefore cost-benefit analysis is unable to identify "the best" project. We cannot avoid making decisions by appealing to methods such as cost-benefit analysis; the usefulness of the method is in providing information to those charged with making those decisions. The value judgements about the actual values of future costs and prices, the effects of which can be explored by adequate sensitivity analysis, are therefore minor in relation to the more fundamental value judgements upon which cost-benefit analysis rests.

The alternative decision making frameworks offered by Fitzsimons fare no better. Her