

ECONOMIC THEORY AND FOREST POLICY

It is well known that a free market system produces an optimal welfare solution for society if the economy is strictly competitive. It is also well known that if the economy is characterised by a monopoly, incomplete information or public goods, then a free market system results in market failures and non-optimal solutions.

Forestry is an activity which contains a large portion of public goods and services. Further, the long rotation period gives plenty of room for incomplete information on prices and biological effects. Accordingly, a free market system in forestry is likely to produce market failures of significant magnitudes. These are the reasons for the existence of and need for forest policy.

There is a widespread belief that there is an inherent contradiction between economics and policy in forestry. The use of economics is criticised on two grounds. First it is believed that economic analysis always ends up by recommending market solutions. This is not true. The logical reasons behind the need for the regulation of forestry are derived from economic theory and provide a solid ground for forest policy.

Second, economics is criticised for the practice of putting prices on things that can not be priced, such as scenic values or the "existence values" of different species. However, this is not something done only by economists. Whether the policy-maker likes it or not, (s)he is always putting price-tags on non-priced goods (and services) when (s)he is formulating his/her policy solutions. Each choice of policy results in a unique combination of marginal cost and marginal benefit solutions, i.e. implicit prices. Accordingly, the difference between the policy-maker and the economist is that the former sets the price by making policy and the latter tries to reveal the (optimal) price first, and then makes policy recommendations.

There is no contradiction between economic theory and forest policy. Economic theory is simply a tool that can be used to find the best policy. Economics, as a science, cannot *a priori* recommend either market or interventionary solutions to a problem. What economic theory can do, however, is help the policy-maker to structure the problem, point out important factors, and reveal hidden preferences. When used with care, economic theory is a good servant to the makers of forest policy.

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