

Preserving the Northern Forest with Fiscal Policy

by

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Abstract

In this work I examine the problem of over-development in the forestland of northern New England and New York. Specifically, I examine the possibility of modifying the federal tax code to respond to the problems of development in the Northern Forest. This work is intended to serve as commentary for the Congressionally funded Northern Forest Lands Coalition (NFLC). It is furthermore intended to provide information for those individuals who are involved in the debate over the proper way to manage the Northern Forests.

I argue that privately owned forestland provides public benefits that are not provided when this land is partitioned and developed. Therefore, an important public policy goal should be to discourage the development of this land. With this goal in mind, I create a framework for ranking the desirability of public policies. This framework utilizes a similar setup as an economic cost-effectiveness analysis. Then, to locate fiscal policy handles, I characterize the over-development problem within the Northern Forest. I also argue generally that fiscal policy is an important governmental tool for achieving social goals.

Finally, utilizing the above framework, I assess the desirability of each of the NFLC's policy recommendations. First, an especially close examination of the restoration of a capital gains differential for timber manufacturers is undertaken. Each of the NFLC's other fiscal policy recommendations is then considered as well as several fiscal policy options that the NFLC did not closely consider.

I argue that there are two ways to use fiscal policy to reduce development within the Northern Forest: increase the costs to developers or decrease the costs to those who currently own forestland. I find that the NFLC has completely focused on the latter at the expense of the former. Many of the Council's recommendations have taken the form of broad subsidies to the timber industry. I argue that these policies are not desirable because they are costly and they ineffectively target the land which is vulnerable to development and the times of peak demand. The reinstatement of a capital gains differential is a particularly poor policy because of the difficulty controlling who receives the subsidy, the uncertainty of the conservation benefits of such a subsidy, and the excessive cost of such a policy.

I finish by recommending an integrated policy solution which includes removing housing subsidies within sensitive forestland and wilderness areas and utilizing the revenue gained by such reduced subsidies to purchase conservation easements on sensitive lands. If implemented properly, these policies could be revenue neutral and have great effectiveness in reducing development on ecologically sensitive lands. A reduction in estate taxes is also embraced because of its ability to maintain continuity of land ownership within the region.