

Research Department  
Federal Reserve  
Bank of  
San Francisco

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## Clearcut Decisions?

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Two recent Federal court decisions concerning timber cutting in national forests could have important implications for the nation's future timber supply. The application of these rulings throughout the national-forest system might improve the long-term productivity of these forest lands, but it might also impose a short-term setback to the depressed forest-products industry by reducing current timber supplies, boosting timber costs and impairing the industry's ability to support the long-awaited housing recovery.

The two decisions, one affecting the Southeast and the other Alaska, would require the U.S. Forest Service to adhere to a literal interpretation of the Organic Act of 1897, which bans the sale of trees other than those which are dead or physiologically mature and individually marked. Strict enforcement of this interpretation would place sharp limitations on the practice of clearcutting, the timber-harvest method which involves the complete removal in one cut of all trees—both young and old—in a given area. As the cheapest and most efficient method of timber harvesting, clearcutting accounts for a significant share of the total harvest from national forests—roughly half of the total in Western national forests and an even larger share in the East.

### **Pro and con**

The environmental groups that brought suit in these two cases argue that the emphasis on

maximum exploitation of timber resources, at the expense of other multiple uses, has led to vast destruction of wilderness and scenic values and has had detrimental effects on other resources, such as wildlife and watersheds. More specifically, they contend that clearcutting will stunt future forest growth, by permitting the leaching of precious nutrients as the ravages of weather affect cutover forest land. They advocate that the Forest Service adopt a selection system of cutting rather than clearcutting as its primary management technique, thus allowing trees to reach full maturity before being cut.

Forest Service officials extol the benefits of clearcutting, on the other hand, arguing that important species such as Douglas fir and lodgepole pine grow and reproduce best with full exposure to sunlight, a condition fostered by clearcutting. They argue further that clearcutting is the only method that permits restocking with genetically superior species, as well as the control of certain diseases and insects. The argument may not be solved for at least another century, until several crops of trees have been clearcut and replanted and the vigor of their growth determined.

Congress may not wait that long, however, recognizing the short-term economic impact of a strict application of the Federal court rulings to all national forests, which provide about one-sixth of the nation's total timber harvest. Con-

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gressional leaders thus have introduced legislation that would permit clearcutting on national forest lands, providing the Forest Service establishes certain guidelines “to protect soil, water, esthetic, and wildlife resources where fragile or subject to major ecologic disruption.”

## **Impact on timber**

The Forest Service contends that the initial impact of a nationwide limitation on clearcutting would be an end of most timber offerings from national forests. A cutback in sales of the magnitude suggested (75 percent) could reduce the nation’s total harvest by as much as 12 percent. Moreover, the decline could be on the order of 20 percent for the supply of softwood sawtimber—the source of the lumber and plywood essential for homebuilding—because of the major role played by national forests in supplying that particular resource. The greatest impact would be felt in the West, where national forests account for an exceptionally large part of the total timber harvest available from all ownerships—for example, 40 per-

cent of the total in Oregon and California, the nation’s two leading lumber-producing states.

The impact of a cutback in Federal timber supplies would of course be offset to some extent by increased supplies from other producers—large forest-product firms, small independent producers, or foreign exporters—as prices rose to attract new supplies into the market from such sources. The impact on individual forest-product companies would be determined by the extent of their dependency on timber from national forests. Hardest hit would be the small mills without their own forest lands or long-term contracts with the Forest Service, since they would face both a large deficit in their raw-material requirements and a sharp increase in the cost of available timber.

## **Jobs and prices**

In the worst-case situation, with clearcutting restrictions eliminating most of the timber offerings from Forest Service lands—leading to a projected 12-percent decline in the U.S. timber harvest—the result could be the layoff of some 140,000 loggers and mill workers at a cost of about \$1.3 billion in annual earnings. (The secondary impact on other industries is left out of the calculation.) In the West, the impact of a projected 18-percent decline in the harvest could mean a direct loss of about 44,000 forest-industry jobs and \$475 million in annual earnings. About three-fourths of the regional impact would be felt in California and

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Oregon, the largest producers. Again, however, it should be emphasized that this eventuality would result only if private forest lands failed to pick up the slack as timber cutting declined in national forests.

Forest-product prices could rise sharply if a reduced harvest of Federal timber were not offset by increased supplies from private lands. In a similar situation in 1971-72, when Federal supplies tightened suddenly, prices for timber sold on the national forests in the Douglas-fir region nearly doubled in the space of a year. The rising cost of timber, along with the increased costs incurred in logging by selective methods, would be felt in rising prices of products such as lumber and paper. The shortage and rising cost of lumber in turn could thwart the still fragile recovery of the housing industry.

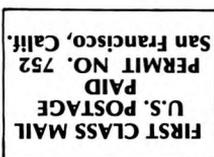
#### **Inconclusive data**

Economic considerations of this sort help explain the drive in Congress to halt the spread of the court-imposed restrictions on clearcutting to other national forests. But the question remains what impact clearcutting—or alternative harvesting methods—will have on timber supplies and prices generations hence. Some critics have charged that clearcutting practices are depleting basic soil nutrients at a rate that endangers the future productivity of the nation's forests. But scientific investigations designed to test that hypothesis have proved inconclusive. In one New

Hampshire experiment, where an area was clearcut and treated with herbicide, nutrient losses after treatment were far greater on the deforested area than on a nearly undisturbed area nearby. However, in another test in western Washington, experimenters found that a forest area influenced by tree removal and fertilizer addition was not subject to nutrient losses despite the high porosity of its soil.

On balance, generalizations regarding the effects of clearcutting on soil depletion are hazardous because the results are also dependent upon other conditions and on forest-management practices. Each study is essentially a case study, and the test data tend to be applicable only to the particular environmental conditions under which each study is conducted. In recognition of this fact, Congress may be reluctant to set forth detailed legislative prescriptions for the management of national forests, preferring instead to ensure only that certain guidelines are established to protect other important forest values when clearcutting is permitted.

**Yvonne Levy**



### BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT

(Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 3/03/76	Change from 2/25/76	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	86,327	- 316	+ 158	+ 0.18
Loans (gross, adjusted)—total	64,743	+ 326	- 2,608	- 3.87
Security loans	904	+ 204	- 1,691	- 65.16
Commercial and industrial	23,044	+ 106	- 1,326	- 5.44
Real estate	19,477	- 38	- 412	- 2.07
Consumer instalment	10,621	+ 0	+ 729	+ 7.37
U.S. Treasury securities	8,989	- 583	+ 2,863	+ 46.74
Other securities	12,595	- 59	- 97	- 0.76
Deposits (less cash items)—total*	86,321	+ 301	+ 2,082	+ 2.47
Demand deposits (adjusted)	23,665	+ 432	+ 1,013	+ 4.47
U.S. Government deposits	601	+ 284	+ 150	+ 33.26
Time deposits—total*	60,485	- 690	+ 1,132	+ 1.91
States and political subdivisions	6,511	- 250	- 298	- 4.38
Savings deposits	24,858	+ 250	+ 5,924	+ 31.29
Other time deposits‡	26,798	- 500	- 3,676	- 12.06
Large negotiable CD's	11,454	- 643	- 4,965	- 30.24
<b>Weekly Averages of Daily Figures</b>	Week ended 3/03/76	Week ended 2/25/76	Comparable year-ago period	
<b>Member Bank Reserve Position</b>				
Excess Reserves	90	28		66
Borrowings	3	7		4
Net free(+)/Net borrowed (-)	+ 87	+ 21		+ 62
<b>Federal Funds—Seven Large Banks</b>				
Interbank Federal fund transactions				
Net purchases (+)/Net sales (-)	+ 1,502	+ 1,588		+ 1,676
Transactions of U.S. security dealers				
Net loans (+)/Net borrowings (-)	+ 148	+ 100		+ 912

\*Includes items not shown separately. ‡Individuals, partnerships and corporations.

**Editorial comments may be addressed to the editor (William Burke) or to the author. . . . Information on this and other publications can be obtained by calling or writing the Public Information Section, Federal Reserve Bank of San Francisco, P.O. Box 7702, San Francisco 94120. Phone (415) 544-2184.**