Ecological Economics 85 (2013) 35–42

Contents lists available at SciVerse ScienceDirect

Ecological Economics

journal homepage: www.elsevier.com/locate/ecolecon

Analysis

# Evaluating the USFS State and Private Forestry Redesign: A first look at policy implications

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ARTICLE INFO

*Article history:*
Received 10 June 2011
Received in revised form 24 September 2012
Accepted 29 September 2012
Available online 18 November 2012

*Keywords:*
Forest policy
Institutional economics
United States Forest Service
Principal–agent relationship
Transaction costs

ABSTRACT

Recently a shift has occurred in the way in which the United States Forest Service (USFS) distributes funds to states through its State and Private Forestry (S&PF) program. Traditionally S&PF has distributed money to states and territories formulaically. Now, under the 2008 Redesign Initiative, 15% of these funds are allocated through a competitive process. In this paper we analyze this initiative through the lens of institutional economics.

Using budget, interview and survey data, we evaluate the new allocation process on the criteria of allocative efficiency, transaction costs, and distributional effects. Additionally, we examine a trade-off the Redesign Initiative faces between short-term innovations and funding programs that meet long-term USFS goals. We conclude that, while there is some positive evidence that the program is achieving some of its stated goals, it is doing so at the expense of higher transaction costs and less certain long-term projects. Moreover, we find that the lack of procedures to evaluate competitively funded projects is an important flaw that may prevent the new initiative from helping to create a high performing and adaptive governance system.



## 1. Introduction

Forests provide numerous private as well as public benefits. Direct benefits to users include the provision of timber, fuelwood, charcoal, and habitat for culturally or economically important species. Broader social benefits include soil conservation, environmental recreation, biodiversity preservation, regulation of run-off, and carbon sequestration (see Pearce, 2002). As such, conserving forests is a primary environmental objective for many government agencies in the United States and around the world.

In the United States, 500 million acres of forestland, or roughly two-thirds of the national total, are owned by an entity other than the federal government. The State and Private Forestry (S&PF) programs of the USDA Forest Service (USFS) have historically played an important role in the conservation and management of these lands by providing technical and financial assistance to states and territories. It is primarily through state forestry agencies that federal investment in state and private forests is channeled. Traditionally, S&PF has distributed funds formulaically to states and territories through a set of program areas including Forest Stewardship, Urban and Community Forestry, Forest Health Management, and State Fire Assistance.[1]

This paper examines recent changes in the delivery of USFS S&PF programs as legislated by the 2008 Farm Bill. These changes, known as "State and Private Forestry Redesign" (http://www.fs.fed.us/spf/redesign/index.shtml), were first introduced in federal fiscal year 2008 (FY2008). While there are several structural changes in the S&PF organization as the result of the Redesign Initiative, the focus of this paper is on one component: the introduction of competition into the allocation of federal funding to U.S. states and territories. 15% of the formula funds are now distributed to states and territories through regional competitions. The remaining 85% of the S&PF budget is still dispersed to states and territories by formula. The original intent of the Redesign Initiative was to bring more than 15% of the formula-based funds into the competitive process in the future, although this has not yet occurred.

The Redesign Initiative is being conducted jointly by the USFS, the National Association of State Foresters (NASF), and three regionally-

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[1] S&PF programs also include Forest Legacy, Conservation Education, Tribal Relations, and Sustainable Development. These programs have not been affected by the introduction of additional competitive funding through S&PF Redesign, while those listed in the text have.

0921-8009/$ – see front matter 
http://dx.doi.org/10.1016/j.ecolecon.2012.09.018

based state forester associations: (1) the Western Forestry Leadership Coalition (WFLC),[2] (2) the Southern Group of State Foresters (SGSF), and (3) the Northeastern Area Association of State Foresters (NAASF). Every U.S. state and territory is administratively located within one of these three regions, and each region runs its own competitive process. Fig. 1 presents the structure of federal grant allocations for S&PF following the implementation of the Redesign Initiative.

In each region, there is a committee composed of state and federal representatives which annually receives and evaluates proposals submitted by individual states/territories or multi-partner groups from that region. The Redesign Initiative has introduced three national themes as a means of categorizing and prioritizing funded activities. These themes are: (1) conserving working forest landscapes; (2) protect forests from harm; and (3) enhance public benefits associated with trees and forests. Additionally, funding decisions are to be based on the priorities expressed in Statewide Forest Resource Assessments and Strategies, another component of the Redesign Initiative to be produced by the states and territories themselves. The 2008 Farm Bill codified these two goals of the Redesign Initiative into law by amending the Cooperative Forestry Assistance Act. These two components are complemented by a National Assessment designed to mutually inform and be informed by the state-level assessments (USFS, 2007).

To help evaluate these outcomes in a sample of competitively funded projects, the Redesign Initiative provides for the publication of an Annual Report Card. Additionally, in 2009 a web-based data collection tool was added to the USFS S&PF National Information Center (NIC), which allows for states to upload descriptions and summaries of their ongoing projects. While the implementation of the Redesign Initiative is ongoing, currently these are the two components that provide for the measurement and reporting of project outcomes.

Together these components are designed to spur innovation in the construction of new types of projects geared towards regional demands that are not being addressed by the current formula-funded programs. Additionally, projects should represent an increase in collaboration both between states and between states and other organizations, such as non-profits or Native American tribes.

The goal of this research is to use the perspective of institutional economics to better understand the impacts thus far of the competitive resource allocation on the delivery of S&PF programs across the United States. We begin with a review of the relevant theory and empirical work. This is then followed by a description of our methods and results, and a brief conclusion.

## 2. Background

### 2.1. Theoretical Justification and Background

The Redesign Initiative represents a partial devolution of authority from the national level to the state and regional levels. As such it reflects increasingly popular notions of competition, innovation, accountability and transparency in government, which have become a strong and standard part of political rhetoric and policy dialog in the U.S. For example, the 2001 President's Management Agenda, which emphasized competition in funding allocations, motivated this by stating a need for a government that is "Market-based, actively promoting rather than stifling innovation through competition." In our experience, these concepts, at least with respect to the motivation for the Redesign program, have also become persuasive within the United States Congress, to which the USFS ultimately has to justify its expenditures.

In this section we present a potential theoretical motivation for the introduction of competition into the S&PF funding process. We are not claiming that the change was implemented with these specific arguments in mind, and our impression, based on our interviews and a reading of the Redesign primary literature, is that the motivation for the process had not been as thoroughly spelled out. Nevertheless, here we present some previous work with which the new funding approach is consonant, in large part to illustrate the motivation for our own research.

There are several theoretical motivations for the devolution embodied by Redesign. To begin, the traditional formula-based system partially represents a common potential weakness of centralized governments: an inability to recognize local heterogeneity, which leads to the application of a common policy to a diversity of contexts for which it is poorly suited (Scott, 1998). The problem that Scott (1998) discusses results in large part because centralized governments often have too little information to govern effectively. This is an established source of government failure which is discussed frequently in the literature on public choice (Tullock, 2002).

This situation for centralized governments is commonly contrasted with that of a market, where, among other things, it is presumed that consumers have perfect information that enables them to purchase goods from producers that maximize their welfare. Moreover, market competition gives incentive producers to provide the goods that consumers desire. This has led to the popular notion that under certain conditions, using market-based competition to provide for and distribute economic goods can maximize allocative efficiency. While allocative efficiency has a rather precise definition in microeconomics, here we use the more general meaning, which is the allocation of scarce resources to their most valuable use. In the private goods markets of standard theory, this value is determined by the consumers who purchase the goods.

The literature on fiscal federalism has made a similar argument, this being that, in the absence of spatial externalities and economies of scale, states may have a comparative advantage over a national government in matching the provision of public goods to local demands, thereby increasing the efficiency of public expenditures. "By tailoring outputs of such goods and services to the particular preferences and circumstances of their constituencies, decentralized provision increases economic welfare above that which results from the more uniform levels of such services that are likely under national provision" (Oates, 1999, 1121–1122). In both cases the argument for decentralization rests on the notion of increased allocative efficiency by a better reflection of localized preferences.

Much of the motivation for the Redesign Initiative is, at least implicitly, based on these arguments. The proposal writing process acts to solicit the preferences of the states, which should be best able to reflect their own needs because of their low-cost access to local information. Then, the proposal review process in some ways mimics a market competition, where the states act as producers and the review committees act as consumers. With enough information, the review committees may be able to increase efficiency in the same way that perfectly informed consumers do so in a private goods market. This information could come from two sources: firstly, from the reviewers own knowledge and experience of the states whose proposals they are reviewing; secondly, from the Statewide Forest Resource Assessments and Strategies mentioned earlier, which are produced by the states and territories themselves. Finally, as long as there is enough competition, the states will be incentivized to produce the public goods that perform well in the selection process.

This narrative becomes more complicated if we understand the relationship between a grantor and a grantee as a principal–agent relationship (Eisenhardt, 1989). In a principal–agent relationship (PAR), an agent acts on behalf of a principal. This relationship focuses on the challenges of motivating the agent to act on behalf of the principal when interests of both parties are not perfectly aligned and the principal has imperfect information on the actions of the agent. A common example of a PAR would be the relationship between an employer (principal) and an employee (agent).

[2] Unique among the regional state forester organizations, the WFLC is composed of both State Forester and federal (USFS Regional Foresters and USFS Research Station Directors) members.