

UNECE/FAO Capacity Building Workshop

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Policy and market interactions

Policies influencing markets and vice versa

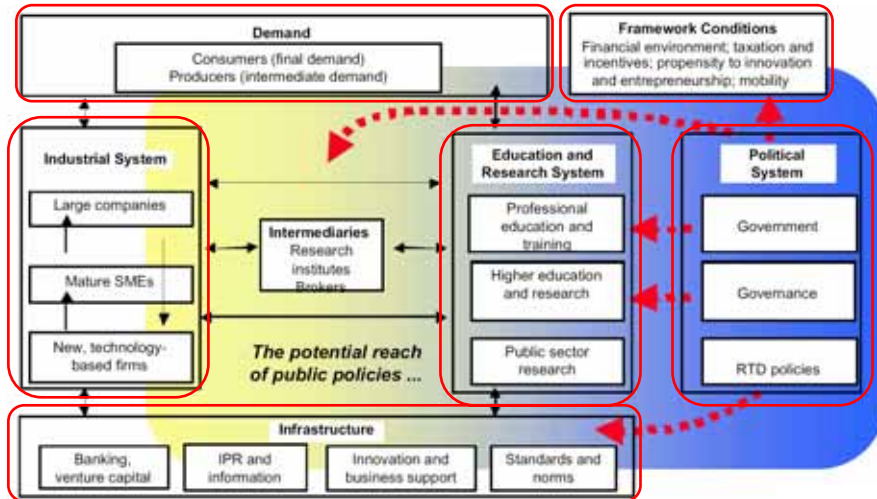
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Policy and markets: global development 1950-2000

From
State Control (& Management) (1950s-70s)
to
Free unregulated Markets (1980s-90s)
to
Complementary roles:
Governments AND Markets! (1990s-?)

Policy and Market Interactions



Source: Arnold / Kuhlman 2001

Policies and rules are needed to support markets

<p>Market-creating Property rights Contract enforcement</p>
<p>Market-regulating Regulatory bodies Other mechanisms for correcting market failures</p>
<p>Market-stabilizing Monetary and fiscal institutions Institutions of prudential regulation and supervision</p>
<p>Market-legitimizing Democracy enhancing Social protection and insurance</p>

Markets replace inefficient government / planned economies

Better incentives for action

Profit as motivator
Decentralized decisions

Better use of resources

Information through price signals
Capital
Knowledge
New technology to reduce costs

Better response to changes

Price signals again
Faster response to demand
Competition as cost driver

Better quality output

Consumer choice as yardstick
Competition as threat

Markets and governments fail

Market failures

- Spillovers – positive and negative (e.g. learning externalities and co-ordination failures)
- Lack of profit for some goods - restricts production by market (public goods and merit goods, the free rider problem, exclusion principle)
- Multiple use of a good - restricts production by market (e.g. tragedy of the commons)
- Merit Goods - exclusion feasible, but society desires more than produced by private sector (e.g. education)
- Lack of Information in the Market
- Transaction Costs
- Monopoly

Government failures

- inherent impossibilities
- political failures
- bureaucratic failures
- legislative failure
- administrative failure
- judicial failure
- enforcement failure
- rent-seeking

Top economic policy rules

First-order economic principles	Six dimensions of governance
Protection of property rights	Political stability and lack of violence
Enforcement of contracts	Voice and accountability
Market-based competition	Government effectiveness
Appropriate incentives	Regulatory quality
Sound monetary policy	Rule of law
Debt sustainability	Control of corruption

Co-ordinating markets and government actions

- **Government “law and order”**
 - Forest law and its enforcement
- **Public initiatives, private support**
 - Initiatives to promote erosion control, SFM, fire
- **Private initiatives, governmental support**
 - Forest certification, market information
- **Private / market domain**
 - Forest products production / processing
 - Daily market exchanges

Some major policy changes affecting forest products markets 1900-2000

1. Logging bans and erosion control policies since 1900s
 - Alpine countries
2. Re-afforestation programmes since 1900s
 - Many countries in Europe, lately: Ireland, DK, UK
3. Nature protection as essential policy goal since 1980s
 - Biodiversity, acid rain, tropical deforestation
4. Shift to comprehensive "SFM" concept since mid 1980s
5. Restitution of properties in Eastern European countries since 1990s

Examples for current policy issues influencing forest-related markets

GLOBAL

1. Forest law enforcement, governance & trade
 - Illegal logging, corruption
 - Forest certification
2. Trade policy, tariff and non-tariff barriers
 - WTO-Anti-dumping tariffs measures (China, Canada)
 - Environmental and social standards
 - Sanitary & phytosanitary measures (longhorn beetle, ...)
3. International Conventions and policies
 - Climate change
 - Nature protection
 - "Sustainable forest management"
 - Desertification

Examples for current policy issues influencing forest-related markets

REGIONAL and NATIONAL

- Rural development, incl. forest sector dev.
- Initiatives to encourage use of sustainably produced timber products (supply and demand side policies)
- Research and development policy
- Wood energy policies
- Nature and biodiversity protection policies
- New producers and consumer markets affecting competitiveness: China, India



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Market and Planned Economy

Market Economy		Planned Economy	
Advantages	Disadvantages	Advantages	Disadvantages
1. better provision of incentives	1. the market satisfies demand but might not meet needs	1. successful at rapid industrialization and structural change	1. enterprises oriented toward increasing quantity of output, not quality
2. better uses local information and conveys global information more cheaply (in prices)	2. public goods not automatically supplied	2. tended to have less income and wealth inequality, higher levels of literacy and basic health care	2. economies as a whole were not technologically dynamic
	3. market power – monopolies, cartels, etc.		3. despite high saving rate, growth was slowed by low capital productivity
	4. possible negative macroeconomic outcomes		4. output mix lopsided – producer goods vs. consumer goods and agriculture
	5. structural changes might be difficult		5. political repression

