

Potential for Increases in Grazing Fees

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Highlight

Incremental changes in grazing fees on Federal lands have not kept pace with private lease rates. The differential between Federal and private lease rates has fostered inflated capital values for grazing permits and base property. Raising fees on Federal grazing lands without compensating ranchers for their leasehold interest would be requiring them to pay twice for the same assets. Prospects are that changes in grazing fees will continue to be incremental.

Pricing of grazing on public range lands has been the subject of controversy since fees were first charged by the U.S. Forest Service in 1905. Fees charged by the Forest Service and the U.S. Grazing Service (now the Bureau of Land Management) have often been used as a prime example of misallocation of resources. This alleged misallocation stems from policies which ostensibly underprice grazing and restrict the transfer of grazing permits.

The purpose of this paper is to examine: (1) some of the history leading to present policy; (2) problems associated with present policy; (3) a theory of political action and the mechanism by which changes in policy take place; and (4) prospects for changes in grazing fee policy.

Grazing Fees

The policies surrounding the grazing fee controversy are the product of an interaction between various interest groups and lawmakers. The evolution of grazing fee policy is characterized by incremental changes (Dutton, 1956; Foss, 1959). Grazing was originally permitted on Federal lands at no fee as a means of promoting use of idle land resources with the hope that some gain to society would be realized.

Forest Service Fees.—By 1877 the policy of free use was being questioned, but a system to lease

grazing was not provided until the transfer of the old "Forest Reserves" from the Department of the Interior to the Department of Agriculture in 1905. Fees established in 1905 were increased slightly in 1910 and 1915. In 1916 a study of the rental value of some 900 tracts of private land led to grazing fee increases in 1917, 1918, and 1919. By 1920 the minimum fee for cattle was \$0.60 per annum and the maximum was \$1.50. Comments by members of congress, who felt fees were too low and who favored increased fees, had assumed such proportions by 1920 that the House Committee on Agriculture made efforts to increase fees as much as 300%.

In 1920, the Forest Service initiated a study to determine a fair basis for grazing fees. This study led to incremental increases in fees in 1928, 1929, 1930, and 1931. In 1933, a plan to set a base fee and adjust this up or down according to current market prices was adopted. The base fees averaged 14.5¢/month for cattle and 4.5¢/month for sheep. However, average fees on privately owned range in the ten-year period 1913 to 1923 were determined to be 24.6¢/cow month (Dutton, 1956). This means that the base rent charged by the Forest Service was only about 59% of the competitive rent in the same period.

Bureau of Land Management Fees.—Provision for control of grazing on much of the remaining public domain was made by the Taylor Grazing Act of 1934. Grazing fee policy on Taylor Grazing lands, like that on Forest Service lands developed incrementally and was moulded by the workings of interest groups and legislators. Original fees set at the time the Taylor

Grazing Districts were established were 5¢/AUM. These fees were not meant to be revenue producers, but were meant to cover costs of administration and would be raised only as administration costs rose (Fulcher, 1966).

Evidence of interest-group influence and power is the fact that Nevada stockmen objected to the fees and succeeded in obtaining an injunction from a Nevada District Court. When appealed, this action was sustained by the Nevada Supreme Court, and was reversed finally by the U. S. Supreme Court. Senator Pat McCarran of Nevada rallied to the support of his rancher constituents and under his leadership a senate committee began an investigation of fees which lasted from 1941 until the fall of 1947.

Seemingly, evidence also of the action of interest groups and political vote maximizing is the statement of Representative Norell (to then Grazing Service Director Forsling). . . . "I would appreciate your testimony much more if you would just come before us and tell us that the reason why these fees have not been increased is because the western Senators and Congressmen objected, because this is exactly the situation, and you know it and I know it" (U.S. Congress, 1946). In 1946 the Grazing Service was caught in a squeeze between McCarran's Senate Committee which refused to allow increased fees, a House Sub-Committee on Interior Appropriations which wanted higher fees, and powerful interest group activity on both sides of the question. This situation led in July 1946 to the Grazing Service being reorganized into the BLM. And in 1958, after two decades of dispute, the cost of administration basis for determining fees was abandoned in favor of a fee based on livestock prices. Present BLM fees are in the neighborhood of \$0.30/AUM.

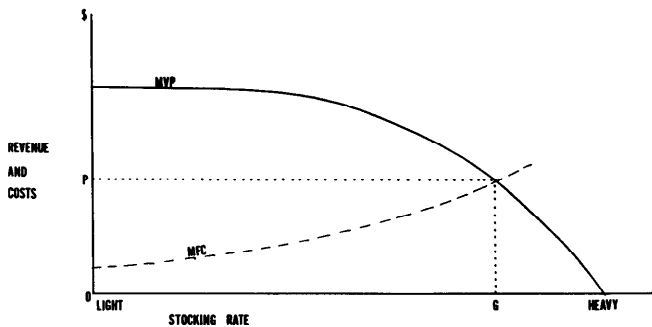


FIG. 1. Relationships of marginal value products and marginal factor costs to optimum stocking rate and leasing price.

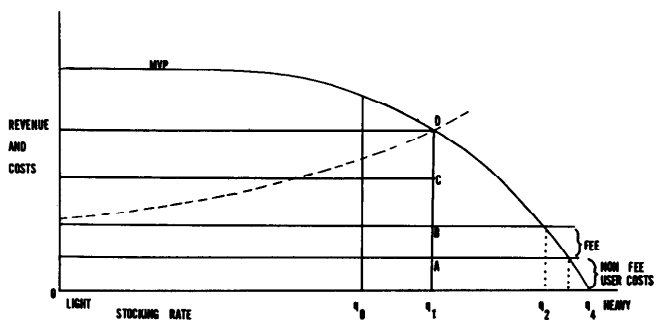


FIG. 2. The relationships of low grazing fees on public range to valuation of private resources (Adapted from Roberts, 1963).

Underpricing and Misallocation Under Present Policy

Underpricing in this paper will be assumed when the marginal value product (MVP = Marginal physical productivity of input x price of output) is larger than the marginal factor cost (MFC or price of the input). The shape of the MVP curve (Fig. 1) reflects decreasing additions to livestock production with increases in stocking rate. The shape of the MFC curve reflects the increasing cost of maintaining each additional animal as stocking rate becomes heavier. The optimum level of grazing "g" and the optimum leasing price "p" occur when the added revenue from the last added animal unit of grazing (MVP) equals the additional cost of this added amount of grazing (MFC). Thus a rancher leasing his private land would attempt to get a price equal to "p". Leasees would attempt to bargain for a price less than "p", and only the most efficient renters could pay "p". Underpricing occurs when rents are less than "p".

This example (Fig. 1) assumes a particular range site, range condition, kind and class of livestock, and set of utilization practices. Also changes in range forage supplies and prices of inputs and outputs would alter the optimum level of grazing and leasing price.

Misallocation occurs when a resource in limited supply does not go to the most productive

alternative; i.e., the person who could pay the highest price. The arguments in support of the contention that there is misallocation on Federal lands under present policy are convincing. The reasons commonly cited are: (1) transfer restrictions, and (2) underpricing. Transfer restrictions are manifested in non-price rationing under the doctrines of commensurability and priority of use. Under this non-price rationing, it has been argued, there are more people wishing to graze government lands at present fees than there are grazing resources available and fees are below equilibrium level (that level which would be reached in a freely competitive market).

That these permits themselves have a value which they could not have if the fee were exactly equal to the marginal value product (MVP) of the resource is also evidence of underpricing and misallocation. Gardner (1959) estimated the market value of Forest Service grazing permits to be about \$16 and BLM permits about \$10/AUM. Personal interviews in Utah indicate permits change hands at a price usually falling between \$10 and \$25/AUM, depending on the type of range and other factors. One sale was reported at near \$50. Roberts and Topham (1965) indicate permit values ranged from \$8 for BLM to \$26/AUM for Forest Service permits.

Other evidence of government underpricing and misallocation

comes from a look at rents on comparable private ranges. Because there are costs associated with government range that are not often incurred when operating on leased private ranges, fees and private rental should not be compared directly. Gardner (1962) estimated the added costs on Forest Service and BLM lands and still found Forest Service fees to be about \$1.38 less and BLM fees about \$2.66 less/AUM than private rents on comparable lands. However, Roberts and Topham (1965) showed that when all costs are taken into account there is no significant difference in total utilization costs per AUM. The small differences that do arise are probably attributed to a discounting due to the uncertainty of tenure of permits.

Effects of Present Policy

In Fig. 1 all costs were taken into account in MFC; rents or interest on investment, management costs, costs of maintaining or restoring productive capacity, etc. On Federal lands the rancher only assumes fee costs and some associated non-fee user costs, but these costs are essentially constant for a given range. Thus, MFC on Federal lands is essentially constant and is a straight line which does not turn up (fee lines in Fig. 2). These costs are lower than those which would be assumed by a land owner or those under competitive bid. When the rancher only assumes the constant fee and non-fee user

costs, net returns are maximized at q_2 . However, to keep the range from deteriorating and to keep restoration costs down, government range managers (like the private land owner) must restrict grazing to the vicinity of q_1 . If there are user interests in addition to livestock interests, i.e., recreation, wildlife and watershed, the grazing rate may have to be cut back (say) to q_0 .

A simple elaboration of Fig. 2 will illustrate some of the effects of present policy and fees. The fee consistent (under optimum allocation) with stocking rate q_1 is AD. This fee would allocate returns to the forage owners according to the respective resource contribution to ranch operation. Under present policy and fees, AB is the grazing fee, and BD represents the amount by which the grazing fee is underpriced. This underpricing allows the permit itself to take on a price (a capitalized value, i.e., income (BC) \div interest rate). Part of this underpricing (CD) is also capitalized into base property value (CD \div interest rate).

It has been argued on occasion that ranchers using public range are subsidized by the Federal Government. While it is true that a rancher grazing public ranges at the time public grazing fees were established received a windfall gain when he sold his ranch or borrowed money with his ranch property as collateral; it is also true that buyers and the old owners have assumed an inflated capital structure. The fact that part of the "underpricing" is capitalized into base property and part into permits is evidence of this artificial or inflated capital structure. This capital structure arises because ranchers have paid a competitive price in a competitive market for the privilege of grazing public lands. The fact that they paid a competitive price "in the market" disputes the contention that the rancher grazing public land is

subsidized. In this light, the argument that the government should raise fees to eliminate subsidization is not valid. The argument that ranchers using Federal lands are getting rich at the expense of the Federal Government is also not valid. When the value of grazing permits is taken into account the return to ranchers for their money invested in their operations is very low usually ranging from a minus figure to a plus 5% rate of return (Caton, 1962; Roberts and Topham, 1965; Roberts and Blanch, 1966).

The valid argument for increased fees (and the one the Bureau of the Budget is using) is that the Federal Government should receive a fee more consistent with the lands' producing or carrying capacity (Zwick, 1967). And with this there should be no quarrel. The problem is how to implement a change in the fee structure and adequately handle the capitalized values in grazing permits and/or commensurate property.

Effects of a Change in Fees

A private landlord usually does not compensate tenants for an increase in rent, likewise there is a popular belief that permittees on government range should not be compensated. It has also been suggested that an increase in fees would result in a capital gain to society (Roberts and Topham, 1965). An increase would also, however, result in a capital loss to ranchers using Federal range. If the fee were in fact set at AD (Fig. 2), permits would then have no value and the capitalized value of the base property and of permits would fall. Unfortunately, some grazing permits have changed hands so that many ranchers have already paid part or all of the capitalized differential. Other ranchers have paid part of the differential as property and/or inheritance taxes on the in-

flated capital values of base property and grazing permits. Ranchers who have paid all or part of the differential would in effect be paying for these assets twice. Still other ranchers have invested in improvements on Federal lands. For the Federal Government to raise fees without compensating permittees for the value capitalized into the permits or into their base property or for investments in improvements would be penalizing the permittee for a Government policy not of the ranchers own making, but a product of our political system.

The State Board of Equalization in California has recently sustained an administrative ruling which affirms the taxability of grazing rights on Federal lands as possessory interest (Bean, 1967). The possibility that permittees may be taxed on their leasehold interest in Federal grazing lands reinforces the contention that permittees should be compensated for loss of capitalized value due to fee increases or condemnation by eminent domain.

Proposed Alternatives

If it is deemed desirable to change fee policy, several alternatives for fee changes have been advanced (Brewer, 1962; Gardner, 1959; Roberts, 1963) to deal with the various problems outlined above and include:

(1) Eliminating fees altogether on the grounds that society ought to encourage ranchers to use public forage because it would be wasted if they did not use it.

(2) Allow public grazing lands to pass into private ownership.

(3) A one-step fee increase to the full value of the forage with no compensation for capital loss of investments in grazing permits or commensurate property.

(4) A one-step increase with compensation for capital loss.

(5) Sealed bids (this would solve the fee problem and the

problem of allocation of use rights, but has no provision for compensation for capital loss).

(6) Because in most instances permits have not assumed the full expected value, set fees at some level above current fees so that new freely transferable permits could be issued which would have the same value as the old permit (Gardner, 1963). This proposal would eliminate the capital loss to present permittees and eliminate transfer restrictions, but does not have adequate provision for future increases in fees.

(7) Small increases in fees over a number of years.

Prospects for Change

A theory of political action may shed some light on the prospects for a change in policy. Downs (1957) has postulated that politicians seek office solely to enjoy the income, prestige, and power that goes with running the governmental apparatus. Politicians and their parties formulate policy primarily as a means of gaining votes. Downs further postulates that politicians usually do not seek office in order to carry out certain preconceived policies or to serve any particular interest group, rather they formulate policies and serve interest groups in order to gain or stay in office. They sell policies for votes instead of products for money, and attempt to maximize votes much as a producer attempts to maximize profits.

In the past when a large percentage of society was farm or ranch oriented, or not more than one generation removed from the farm, policies which favored agriculture were vote getters. Now only a small percentage of society is actively engaged in farming and ranching and many citizens are more than one generation removed from agriculture. Thus, policies which favor agriculture are beginning to lose voter appeal. Also the roles of consumers and producers in in-

fluencing policy is beginning to change. Citizens are more likely to exert influence as producers than as consumers. This is because nearly every citizen derives all his income from one or two sources and hence any government action affecting these sources is of vital interest. In contrast, each person spends his income in a great many policy areas so a change in any one is of little interest. This situation is changing as society is getting more leisure time. It is now rational for more people with "free" time to "look out" for their consumer interests as well as their producer interests. Thus, it is that we are experiencing a tremendous boom in interest group activity in recreation and changes in policy to reflect this interest.

With the decreased influence of farmers and ranchers in government due to redistricting, the efforts of the Bureau of the Budget to establish user fees more in line with user benefits, and the advent of PPBS (Planning Programming Budgeting System), there can be little doubt that policy will be changed and grazing fees will be raised. The question now becomes in what manner. In the review of the history of grazing fees it was pointed out that changes have been incremental, i.e., no radical changes "overnight". Lindbloom (1959) has shown this to be a rational policy-making procedure. A wise policy maker expects that his policies will achieve only part of what he hopes, but he also realizes it will produce unanticipated consequences he would have preferred to avoid. If he proceeds through a series of successive incremental changes he avoids serious and lasting mistakes, does not go far beyond his knowledge, and can quickly change again in the event of error. Thus, new policy is built on old policy and the test of a good policy is not if it achieves

desired ends, but whether it is acceptable.

There will be increases in grazing fees as interest groups express their desires and/or politicians think they can maximize votes by changing policy. Policy and fees should, however, continue to be changed incrementally and will be changed only as the balance of power shifts from livestock producers to other interests and the new policies can be agreed upon and supported.

Conclusion

In the days when grass was free and cattle sold by the head it was economically rational for livestock producers to graze very heavily (q_1 in Fig. 2). For a long time society encouraged, through no or low fees the use of public range land which might otherwise go unused. As these lands became desired for uses other than grazing, thus raising marginal factor cost (MFC) of grazing to society, pressures began to mount for control of stocking and higher fees to equate MFC and marginal value product (MVP). Though it may have been and still is economically desirable for the Federal Government to receive a rent more consistent with the lands' producing capacity, politicians seeking to maximize votes have been able to maintain low fees and the use of Federal lands for their constituents. It is evident that, because of interest group activity it is now becoming politically expedient to identify with other user interests.

However, statements to the effect that certain policies are economically desirable, but politically impossible should be treated with greatest reserve. Economists cannot say what is economically desirable. Economics can only delimit the area of what is possible and the probable consequences of different actions. It cannot point to a specific "best spot" in the economic

universe. Only the people, through electoral strength or access to a legislative body, can implement what they think is best for them. This does not mean, however, that range managers and range economists cannot and should not help direct the change in policy so that it will be as equitable and efficient as possible to all parties. More work needs to be done on the marginal-value product and marginal costs of grazing, the returns and costs of improvements, formulas for determining fees, measuring capitalized values, and determination of values and costs associated with other uses. Perhaps through this work a politically feasible means can be found for obtaining incremental fee increases with a minimum economic stress on the users of Federal lands.

The American people are not adverse to change, and one thing we can hold before the world is the way we adapt and change policy. Therefore, as long as we maintain our present form of government, changes in grazing fee policy should continue to be incremental and reflective of electoral strength.

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