

# Federal Grazing Fees: A Controversy That Won't Go Away

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Thinking back on it now, I should have known better. Growing up in Wyoming, I knew you could walk into any cowboy bar in the state and start a fight just by mentioning the words "grazing fees." So when the offer came to work on a federal grazing permit study, I should have known enough to say "no." But I didn't and due to that old study and a natural perception among range managers that we range economist types should know something about grazing fees, I still get questions about the grazing fee controversy. This article attempts to answer these questions.

## Apartment for Rent—an Analogy

The essential elements of the grazing fee controversy may be illustrated as follows. Suppose your neighbor, Person A, has an apartment for rent and you, Person B, need a place to live. And although the apartment could command a rent of \$200 per month, Person A is confident that you will take good care of the property and issues you a 12-month lease for \$100 per month. Several years pass and each year Person A renews your 12-month contract.

Of course almost anyone would like to pay only \$100 rent for an apartment worth \$200. So you are not surprised when one day Person C stops by and makes an offer for your lease contract:

"I'll give you \$20,000 for your apartment lease."

Naturally you are impressed with this offer and agree to accept:

"Fine! Provided it's ok with Person A."

Happily, Person A approves the transfer of the lease to Person C., after stipulating that (1) the contract is a *privilege* and not a right, and (2) although the rent has not been raised to full market value in the past, it *could* be in the future.

The years pass and Person A continues to annually renew the contract to Person C. And then one year Person A announces that the rent will be raised to \$200. Person C is shocked and complains to Person A.

"Hey, wait a minute! I paid Person B \$20,000 for that contract thinking it would always be renewed."

"Yes, and I cautioned you that it might not be."

"But you approved the transfer of the contract."

"Yes, and I reminded you that the lease was a privilege, not a right."

"But \$200 rent means I'll lose most of the \$20,000 I paid Person B."

"That's between you and Person B and has nothing to do with me. These things happen. I'm sure you've heard about the poor fellow who bought the Brooklyn Bridge!"

## Common Coverage of a Continuing Controversy

In the popular media, treatment of the federal grazing fee issue usually consists of the presentation of a few numbers like those in Table 1. Then, based only on these numbers, a seemingly obvious conclusion is drawn: "Federal grazing permittees are being subsidized by the American taxpayer". While the Table 1 data are accurate, they represent only a small part of the federal grazing cost story.

Table 1. Comparison of private and federal range grazing fees in Utah, 1982-86.

Year	Grazing fee per Animal Unit Month	
	Utah private range <sup>1</sup>	USFS and BLM range
1982	9.29	1.86
1983	7.24	1.40
1984	7.05	1.37
1985	9.94	1.35
1986	5.34	1.35

<sup>1</sup>Agricultural Statistics Board 1986.

## The Rest of the Story

Recent data from Oregon (Obermiller and Lambert 1984) will be used to illustrate the other costs of grazing federal ranges. Table 2 compares the various direct (variable) costs of grazing Bureau of Land Management and private ranges in Oregon. Some BLM grazing costs are higher than private, e.g., gather/takeoff costs, due to the greater distances of BLM range from the ranch headquarters. However, the grazing fee, itself, is much lower on BLM than on private leases (\$1.85 per AUM vs. \$8.06). The most important comparison in Table 2 involves the *total* variable costs, \$11.14 per AUM on BLM vs. \$14.03 on private range. Thus the variable costs of grazing on these Oregon BLM ranges *are* less than on private ranges. But the difference in *total* variable costs is much smaller than the difference in grazing fees alone.

## Capital Value of Grazing Permits

If it's cheaper to run livestock on federal range, then, like the apartment contract above, a BLM permit must be worth something. Clearly, *any* stockman would rather pay variable grazing costs of \$11.14 than \$14.03. And for the same reason that Person C was willing to pay for the apartment lease, a neighboring rancher would be willing to buy a federal grazing permit. But how much could a rational investor pay to obtain these cost savings? This question is easily answered by present value analysis. Applying the real estate appraisal technique of capitalization, the present value of a grazing permit for 1 AUM is:

$$\frac{(\text{Value of forage}) - (\text{Cost of forage})}{\text{Capitalization rate}} = \frac{\text{Real Annual Net Return}}{\text{Real Interest Rate}}$$

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**Table 2. A comparison of the variable costs of grazing BLM and private ranges, Oregon, 1982<sup>1</sup>**

Activity	Type of lease and cost (\$/AUM)	
	BLM Harney/Lake	Private
Turn-out	1.27	1.18
Gather/takeoff	1.66	1.29
Management	1.72	1.16
Maintenance	.75	.64
Salting & veterinary	.42	.35
Meetings	.18	.03
Death loss	2.68	1.27
Fees & rents	1.85	8.06
Other	.61	.05
<b>Total (\$/AUM)</b>	<b>11.14</b>	<b>14.03</b>

<sup>1</sup>Data from Obermiller and Lambert 1984.

The real (inflation free) interest rate is about 8 percent, consisting of the nominal borrowing rate (12 percent) minus the expected inflation rate (4 percent). Substituting the appropriate numbers into the capitalization formula, the present value of the Oregon BLM grazing permit is:

$$\frac{(14.03) - (11.14)}{.08} = \$36 \text{ per AUM.}$$

So a neighboring rancher could afford to invest up to \$36 (a *one-time* capital expenditure) for the privilege of paying only \$11.14 *each year* for forage worth \$14.03. It may be worth nothing that this capitalized value is quite close to King's (1981) estimate of \$30 as the value of Utah federal grazing permits.

By the mid-1960's, an estimated 85 percent of all USFS and BLM grazing permits had changed hands by private sale (Nielsen and Workman 1971). These permits were transferred along with the sale of dependent private land and/or livestock. The above capitalization calculations demonstrate why there is an active private market for federal permits and how permit capital values arise.

There is a common misconception among many people who may be sincerely concerned with public rangelands but who are not familiar with federal grazing permit regulations. The misconception is that low grazing fees lead to overgrazing of public ranges. Certainly low fees do cause many ranchers to *want* to run livestock on public land. And any economist will tell you that the way to create excess demand for a good or service is to set the price too low. But before being *allowed* to graze livestock on the public range, a rancher must hold a federal grazing permit; that is the rancher (1) must be the person to whom the original federal permit was issued or (2) must have inherited or purchased the permit (along with dependent base property or livestock) from the former owner. Also, the number of livestock and time permitted on a public range are set according to the federal agency's carrying capacity estimate for that range. Thus the *actual* stocking rate on public land (and any overgrazing that might occur) are not due to the grazing fee rates charged by the government.

### Total Costs of Grazing Federal Ranges

Let's now examine federal range grazing costs from the

perspective of the permittee. We must remember that most permittees *purchased* their permits, along with dependent base property or livestock, many using *borrowed* money to do so. From the permittee's viewpoint, federal grazing costs consist of three parts. First is the grazing fee itself, \$1.85 per AUM in Table 2. Second are the additional non-fee costs of grazing on public land that would not be incurred on private leased range. From Table 2, these additional costs on BLM range are (11.14 total - 1.85 grazing fee = 9.25 BLM) minus (14.03 total - 8.06 grazing fee = 5.97 private) = \$3.32 per AUM. Third is interest on investment in the grazing permit (.08 × \$36 permit value) = \$2.89 per AUM. If the permit was purchased with borrowed money, this interest is paid annually to the lender. If the purchase was made with the permittee's own money, this amount represents the annual interest foregone (opportunity cost) by having capital tied up in the permit. Summing these three parts:

BLM grazing fee	1.85
Additional non-fee costs	3.32
Interest on investment	2.89
<b>Total federal grazing costs</b>	<b>\$8.06</b>

From the permittee's viewpoint, then, the *total* costs of grazing on federal range are the same as on private leased range. This is no surprise and no accident. If additional non-fee costs (or the federal grazing fee) increase, both grazing permit value and the resulting interest on investment decrease, keeping total federal grazing costs about equal to total private lease costs. If the federal grazing fee or non-fee costs decrease, permit value and interest on investment increase, again keeping total federal grazing costs equivalent to total private costs. Thus the *total* costs of grazing on public and private range leases remain about the same.

### Why the Controversy?

If total public and private range lease costs are about equal, why do we still have a grazing fee controversy? The primary source of contention is simply that the federal government does not recognize the permittee's investment in the grazing permit or the resulting interest on investment as true costs. Like the apartment landlord above, the government perceives the sale of grazing permits as a private transaction having nothing to do with the government. However, federal agencies do implicitly acknowledge permittee investment when they routinely approve new grazing permits based on transfers of dependent base property or livestock between ranchers.

The government does recognize both additional non-fee costs and federal grazing fees as genuine permittee costs (Nielsen and Workman 1971). But since interest costs are not recognized, proponents of higher federal grazing fees have argued that the sum of the federal grazing fee and the additional non-fee costs should equal the private grazing fee. From Table 2, this would mean increasing the BLM fee from \$1.85 to \$4.74 (since a 4.74 federal fee + 3.32 additional non-fee costs = the 8.06 private fee).

Where does this leave us? It can be convincingly demonstrated that the *total* permittee costs of grazing federal range are about the same as those for leasing private range. But as long as the federal agencies do not acknowledge the permittee's investment in the grazing permit, critics will argue that

federal grazing fees are too low and the controversy will continue.

### Summary

News story coverage of the grazing fee controversy commonly deals only with the fact that private grazing fees greatly exceed those charged on federal rangelands. This leads to a seemingly obvious conclusion that "federal grazing permittees are being subsidized." But federal grazing fees are only a small part of the total costs paid by ranchers who graze livestock on public lands. Federal range permittees also pay substantial non-fee costs, e.g. transportation and death loss costs, that they would not have to pay on private range leases. In addition, permittees incur the costs of interest on capital investment in the grazing permit.

It can be shown that the permittee's *total* costs of grazing federal range are about the same as leasing private range.

However, as long as the government refuses to recognize the permittee's capital investment in grazing permits and the resulting interest costs, critics will continue to argue that federal grazing fees are too low.

You can still start trouble in Wyoming's cowboy bars just by mentioning grazing fees. And it's not likely that this controversy will soon go away.

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## The Federal Grazing Fee: A Viewpoint

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Discussions of the federal grazing fee among ranchers, range managers, environmentalists, politicians, and other concerned parties are rarely without emotion and never without disagreement: fees are either too high or too low, and grazing either should or should not occur on federal lands. The decision process that governs the use of federal funds for grazing lands includes an economic analysis. We discuss the grazing values appropriate for use in these analyses and separate them from values having only accounting functions.

The mandates requiring public land managers to perform economic analyses of potential investments for federal land are motivated by the same concern that private ranchers have for their investments: both want to invest in practices that will help them achieve their objectives. This is not to imply that the objectives are the same. If economic analyses are performed with misinformation, the achievement of public or private goals might not be realized. The economic goals of government can be summarized as the achievement of efficiency and equity (sometimes called welfare). Efficiency provides for producing goods and services at the least possible expense and selecting the level of production that results in the greatest net returns. Equity deals with shifts in resource ownership, income distribution, who pays, who gets paid, and wealth of individuals and firms.

Many economically efficient states exist—each corres-

ponds to its income distribution, resource endowment, technology, and taste and preference. Selection of the "best" state depends on a complex political process in which economic-equity analysis is but one integral step. Economic analysis offers useful information for pointing out incomes and wealth attainable under differing circumstances. Final decisions on equity for individuals and firms remains a political process.

Most economic analyses deal with profit, products, and costs. Results of these economic-efficiency analyses suggest optimal rates of production, use of resources, and an appropriate product mix to obtain the greatest net revenue or produce at the lowest possible cost within biological and economic constraints. Economic-equity analyses examine the distribution of resources and capital, analyze the trade-offs and shifts associated with different distributions, and estimate the probable outcome of new policies and programs given some starting point. Changes in policy and programs that result from equity analyses must remain economically efficient to be politically acceptable over time. Thus, whether the goal is to redistribute resources and wealth or to achieve a given rate of production, society demands the elimination of waste.

What is the appropriate use of the federal grazing fee in analyses of economic efficiency and equity? When the efficiency of use of federal forage by a privately owned ranch is analyzed, the grazing fee is part of the cost of obtaining seasonal forage for livestock operations. The grazing fee is thus used in the analysis of a profit-maximizing ranch in the same way as is the cost of obtaining hay, grain, leased forage, or other resources. Nonfee costs are incurred and must be considered. Ranchers make production decisions on size of herd, purchase of related resources, and marketing based

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