

RANGE MANAGEMENT

Ranch and Range Economics

Grazing fees have been the subject of much interest and discussion—and some research—since 1961 (and periodically before that, of course). In 1963; after extensive study, public discussion, and formal hearings; the Secretary of the Interior revised and increased grazing fees collected by the Bureau of Land Management. Later a further increase in BLM fees was proposed to become effective in the spring of 1965; however, action has been postponed until the spring of 1967.

The American Society of Range Management includes members with a wide diversity of interests and opinions on grazing fee policy issues. It is hoped that our presentation of the following three articles will be informative, interesting, and stimulating to most of our readers.

The next three articles are based on papers presented in the Range and Ranch Economics Session of the Society's 1966 Annual Meeting at New Orleans, Louisiana. Dr. Charles J. Zwick's, an Assistant Director of the Bureau of the Budget, describes and discusses the Government's policy on user charges in general, and grazing fees as one of the many user charges. Professor W. Gordon Kearl, economist at the University of Wyoming, presents a critique of Zwick's address, and raises important questions about attempts to apply basic government policy to grazing fees. Dr. William E. Martin, economist at the University of Arizona, presents the results of recent research on ranch values and poses some important questions about our traditional approaches to ranch values and grazing fees.—*Russell D. Lloyd*, Member, Editorial Board, Journal of Range Management, Fort Collins, Colorado.



Fees and Charges as Tools of Public Policy¹

CHARLES J. ZWICK

Assistant Director, Bureau of the Budget, Executive Office of the President, Washington, D. C.

Highlight

This paper describes the U.S. Government's policy on user charges. The basic rationale for this policy is considered, and questions are raised concerning the implementation of this policy in the grazing fee area.

Fees and user charges are important tools of public policy. They have a long history and promise to be with us for the indefinite future.

Although there is a firm and fixed policy on the role of user charges, the implementation of this policy in specific situations is far from fixed. Broad policy must, of course, be translated into specific fees or schedules of

fees, and these must be adjusted in light of changing circumstances. If this translation from broad policy is to be done effectively, discussion is needed among the several interested groups.

My objective is to describe Government policy with regard to user charges, and to raise questions concerning the implementation of this policy in the particular situation of grazing fees. I hope to demonstrate the need for change. I also hope to obtain from you information which will help me discharge my responsibilities as an Assistant Director of the Bureau of the Budget. The Budget Bureau is responsible not only for advising the President on how to expend Federal resources, but also for helping him to assemble the in-

formation upon which to base his legislative program and his administrative action.

There is a long-standing Government policy on user charges, but I will concentrate on its recent history. After World War II, it was evident that many charges for special Government services were badly in need of being increased to reflect price changes. President Truman's Budget Message of January 1947 stated, "While it is not sound public policy to charge for all services of the Federal Government on a full cost basis, and many services should be provided free, the Government should receive adequate compensation for certain services primarily of direct benefit to limited groups."

During the next few years, several special studies were made which considered various aspects of user charges and the problem of applying them to such areas as transportation, recreation, agriculture, water resources, and the activities of regulatory agencies.

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In the Independent Offices Act of 1952, Congress set forth principles which guide us in these matters. President Eisenhower sent the first fully-developed package of transportation user charges to Congress.

To bring us up to date, in his Budget Message of January 1966, President Johnson stated, "The nature of many Government services is such that they should be provided without any charge or with only nominal charge. However, in certain cases, when a Government program provides special benefits or privileges to specific, identifiable individuals or businesses, appropriate user charges should be initiated. To this end, legislation will be proposed when necessary, and equitable user charges will be instituted administratively where authority exists to do so."

From this brief review, it is clear that the Government does have a consistent, repeatedly stated policy on user charges. For those interested in the details of this policy, it is formally documented in Bureau of the Budget Circular A-25.

Now let us consider the Government's record in applying this policy. There are today more than 1500 user charges in effect. In the three fiscal years 1963 through 1965, the Government adopted 155 new user charges and increased 415 others. During the same period, 86 user charges were decreased where costs or value factors called for such action. Change does not always mean an increase.

One year ago the President requested 52 agencies to report on their current efforts to extend the application of the Administration's policy on user charges. As a result of that action, the Administration initiated a number of proposals for new or increased fees. Legislation is now pending in Congress on a number of user charges. The President also intends to submit ad-

ditional legislation for new fees during this session of Congress.

In terms of revenue implications, the most important set of user charges now awaiting legislative action are those in the general area of transportation, including highway, air and inland waterway user charges. To give you a feel for the breadth of the proposals now pending in Congress, I will cite several other areas: we propose to apply fees for meat and poultry plant inspection, fees for navigation services, fees for certain customs inspection services, and fees for inspection of towing vessels. A number of other examples could be cited but it is clear that we currently have a wide variety of user charges in effect and are diligently implementing Government policy in this area.

Viewed as a source of revenue to the Federal Government, the following picture emerges: User charges currently in force will yield approximately \$1.5 billion in Federal revenue in fiscal year 1967. We propose to obtain additional revenue of \$365 million in that year through the application of new user charges and increases in existing fees. By far the most important source of additional revenues from user charges will be the new transportation fees.

In summary, my major points so far are: first, we have a clear policy with regard to user fees which has been in effect for a number of years; second, this policy is broadly applied—we have over 1500 applications of the policy; third, it is an important source of revenues—based on current projects, a little less than \$2 billion of revenue will result from these charges in the fiscal year 1967; and finally, the Administration is hard at work broadening the application of this policy to new areas and adjusting its application in others.

Now about the question of justification: Is it true that the only

reason the Administration has a policy of instituting user charges is that it is a convenient way to add to Federal revenues? Or is it because of a pragmatic view that we can avoid pressures from special interest groups for new and bigger programs if we transfer the cost of those programs to the groups themselves? Budget makers might be tempted to advance that view; I doubt whether any President of the United States would adopt any such postulate. Presidents are not in the habit of taking a narrow fiscal view of their responsibilities.

A basic reason that the Government applies user charges is that it provides a basis for determining appropriate levels of specific programs. If the price charged for a service reflects the cost of providing that service, we can be more confident that we are devoting the right amount of resources to providing that service.

Balancing marginal costs and revenues, and reflecting this balance in the price of a commodity, is of course the basic principle underlying a free market economy. If someone is willing to pay the cost of providing the service, it should be provided—if not, the service should be curtailed.

A second basic reason for the application of user charges is that of equity. The President of the United States must ask, "Why should the general taxpayer provide the money and other resources which will enable a special group in our society to get special services of particular value to them?" Clearly a number of programs, including national defense, health and educational programs, should be covered by general revenues. As the President said in his recent Budget Message, the freedom, health and prosperity of all mankind are the proper concern of a Great Society. In some cases, particular goals can be achieved more rapidly and with greater

overall equity if the general taxpayer and the recipients of a Government service share the cost of the service.

But in many instances, when the Government provides a service to specific groups, and in particular when a service is used by a specific group as one of the inputs in a productive process—whether it is public grazing lands or public highways on which truckers operate—a strong case can be made for charging appropriate fees for the use of these services.

Now what about the specific area in which you have a special interest, grazing fees. Two points are immediately obvious. First, it is a matter of Government policy to collect grazing fees for the use of public lands. Secondly, to date the application of this policy has been far from perfect. We have, for example, a wide disparity in the fees or charges collected for Indian lands, national forests and the public domain. These differences cannot be rationalized on the basis of

differences in value obtained from these publicly owned lands. While there may be disagreement as to the precise values involved, few will claim that the present levels of grazing fees represent a fair return to the public for the use of its resources.

The Administration is determined to establish a more appropriate fee structure for grazing privileges. Under the authority conferred by the Taylor Grazing Act, the setting of these fees is an administrative determination. The President therefore can change grazing fees by simple administrative decision. The President feels, however, that this is such an important decision that he will not install a new grazing fee structure before the 1967 grazing year. He expects that the intervening period will be used to develop appropriate charges; ones that take into account variations in quality and other factors. But by next spring a new fee structure should be implemented.

This, then, is the situation we find ourselves in today. We have the unique opportunity to undertake analyses and to start a dialogue which will lead to new and more appropriate fees for the use of public lands, starting with the 1967 grazing season. I hope you will accept part of this responsibility, both on the grounds of equity and because of the value such fees are in helping us determine appropriate levels of investment in our public lands.

If we are to make sound investment decisions with regard to our public lands we need to be able to determine the real value of those lands to the users. One very important measure of value is found in the fees which users are willing to pay. Sound fee levels will provide the Government with a basis to support future investments in the public lands.

We need the views and advice of members of the American Society of Range Management, and others, on this important matter.