Resolving Resource Conflict: a Bigger Pie

Jim Winder

Abstract—One of today's critical questions for ranchers is how to gain economic benefits from natural resources without damaging biodiversity. Ranchers today face declining beef prices, escalating resource prices, and taking on costs once covered outside the industry. Ranchers join environmentalists and agency personnel in the struggle to meet evolving needs of the American people.

Change is inevitable but so is resistance to change. Ranchers, environmentalists and agency personnel are wrapped in a struggle over the changing management focus on public lands. Although this debate has many facets, the fundamentals lie in the evolving needs of American society. Lands once valued only for commodity production are now valued by a well fed public more for recreation and conservation. These changing needs and values have found their way into the market place where the real price of beef has declined precipitously and environmentalists are asking ranchers to pay the cost of past resource abuse. Paradoxically, the forces which seem to be destroying ranching on public lands offer the one legitimate opportunity for ranchers to survive on the land.

Ecology of Business

Just as plants and animal are subject to the laws of ecology, humans are subject to the laws of economics. A living organism must be able to out compete other organisms for natural resources in order to grow and reproduce. If that organism uses more energy than it captures, degrades its ecosystem, or is unable to compete for resources then it is not sustainable and will disappear over time. Business failures result from an inefficient process which uses more monetary inputs that it produces, degrades the resource or is at a competitive disadvantage with other businesses. To remain solvent a business must be sustainable in terms of Nature and in terms of the needs of society.

As the debate over proper uses of public and private rangelands continues in and out of the courts, only one thing is certain, economics will have the final word. Those uses of the land which are sustainable when all costs are considered will remain viable, however non-sustainable users will be pushed from the land. Far more ranchers will continue to leave the land because of economic reasons than because of the courts.

In: Finch, Deborah M.; Whitney, Jeffrey C.; Kelly, Jeffrey F.; Loftin, Samuel R. 1999. Rio Grande ecosystems: linking land, water, and people. Toward a sustainable future for the Middle Rio Grande Basin. 1998 June 2-5; Albuquerque, NM. Proc. RMRS-P-7. Ogden, UT: U.S. Department of Agriculture, Forest Service, Rocky Mountain Research Station.

Jim Winder is Chairman, Quivira Coalition, HC 66, Box 38, Deming, NM 88030.

Brief History of Ranching

To nineteenth century Americans, this country's vast rangelands held no value outside of commodity production. Domestic livestock grazing, at its core, is only a method to harvest and refine native vegetation which is indigestible to human beings. Grass had no value in and of itself, it was only when that grass was converted to beef that the value was realized. And thus the beef industry took root as a method of refining the vast natural resources in the American west.

The history of the western beef industry is not unlike that of many other industries, rapid growth and large profits which recruit additional producers which in turn lead to industry maturation. In the case of the beef industry, this aging process was escalated by a government policy of cheap food which encouraged further production through investment in research. On one level the research was successful as production per cow more than doubled. But on another level it was disastrous for those ranchers it professed to help, as production improvements only tended to flood the market with more tons of beef selling at lower prices. This policy was good for society and politicians as real food prices declined but devastating to the rancher as beef prices failed to keep up with inflation.

In 1960 it took 8 finished steers to buy a new pickup truck, today it takes 34. This shows us that the real price of beef has declined precipitously while the price of inputs has continued to climb. In real terms, American society values beef relatively less today than it has in the past. At that same time, society has begun to place value upon other, non-commodity, uses of natural resources such as conservation and recreation.

New Uses of Natural Resources

When my grandfather ranched, the price of a parcel of land was determined by its productivity in terms of livestock, timber or mining. In financial terms this meant that the price was approximately equal to the present value of the expected net income stream from these enterprises. In my father's time the price of land began to reflect a new value, recreation. A ranch would be valued higher if it had greater recreational potential, such as deer hunting, even though commodity production was comparable to other ranches. Today our society has found a third value for natural resources, that of conservation. Organizations and individuals purchase ranches with no intent of grazing cattle, instead they are focused on habitat production. Individuals value a parcel of land for its health, and are willing to fight for land that they have never even walked upon. It is the conservation value of our lands that fuels the entire environmental movement.

The ranching community which is suffering through the fall in real beef prices is now faced with escalating resource

costs due to the competition from non-commodity users. In other industries faced with maturation, the strategy is consolidation in order to reap economies of scale. Ranchers are denied this option because they are unable to pay for additional land through production centered on only one land value, when the land price reflects all three values.

Scarcity

Damage to the environment resulting from business activity is often not paid for by the business but born by society. Economists call this an external cost. Costs such as riparian deterioration or species extirpation do not show up on the financial statements of any company but instead are thought to impoverish society, especially future generations, through reduced resource productivity and the direct cost of remediation. The major strategy of the environmental movement is the reversal, or internalization of these external costs. That is to make the business pay for the true costs of production, not just labor and materials but the present and future cost of keeping the land healthy.

At a time when profits in the mature livestock industry are at a low ebb, ranchers are unable or unwilling to shoulder additional costs, whether real or perceived. Thus the heart of the debate for ranchers is economic survival. Proposals to restore riparian habitat or reintroduce wolves are feared for their perceived effect of reducing production and increasing costs. This attitude is one of scarcity, there is only room for commodity based businesses on the land, anything involving recreation and especially conservation will deplete commodity production.

An Alternative

Ranching is a capital extensive industry, that is it takes a lot of capital in the form of land, livestock and equipment to produce beef. Often a rancher has invested in excess of $4000 for each animal unit grazed. Traditionally, the net return on asset (ROA) for ranching has hovered around 2-3 percent in the best of years. This is very low, considering the risk involved with a ranching investment and the fact that one could usually earn a higher return with a risk free government bond. When we view the simple equation for return on assets:

ROA = Net Returns/Total Asset Value

it is apparent that there are only two ways to improve ROA, increase the productivity of the assets in terms of net returns or decrease the cost of the assets required for a given level of production. We have seen the results of the industry's focus on increasing beef production with a never ending stream of innovations. A better way of increasing productivity is not to produce more of the same old thing but to produce new products from the same asset base. Since much of the price of natural resources is related to conservation and recreation, it is rational to base new products upon these values.

Raw values for natural resources are analogous to clouds. They are real and can be seen but they are impossible to grasp or to hold. They have no cash value in and of themselves but offer the possibility of creating wealth through secondary products. Just as the rangeland grasses of the nineteenth century were worthless to humans until livestock converted them into beef, conservation and recreation values must be refined into products that can be marketed and consumed. For a rancher to survive and even prosper in the urbanizing west, the question is how to develop a range of compatible products which tap into all three natural resource values, commodity, recreation and conservation.

The answer to this question is two fold. The first requirement is for a rancher to evolve into a full resource manager with an understanding of the structure and function of the ecosystem. For decades range managers were taught what was good for cows and grass with little emphasis placed on other species or ecological processes. A resource manager should now have a working understanding of the interactions among species since it is this interaction which gives structure to an ecosystem. Also the manager needs to understand the multitude of processes which comprise the ecosystem function. These processes include recovery following disturbance and the distribution of water and nutrients throughout the landscape and the seasons. While the complexity of life on Earth insures that no individual can understand everything, proper management of natural resources necessitates a manager who knows the land. A resource manager who is able to keep the land healthy and sustainably produce goods and services which society values, will have a long tenure on the land.

Once expertise in resource management is gained, the next step is to develop the products and trade channels necessary for delivery to the consumer. Since commodity and recreation values have been around longer their markets are more well defined. A large infrastructure exists for trading commodities and the market is readily accessible to any producer. A broad and varied market exists for recreational products which usually take the form of an experience, a fishing trip, but may also include the tools which make the experience more enjoyable, a new rod. Since society has only recently begun to place significant value on the conservation of natural resources, products and market infrastructure are rare and unproven. Although this situation makes marketing somewhat more difficult, it rewards creativity and gives small businesses equal footing with larger concerns.

Conservation products will initially be marketed to governments and conservation organizations. This may take the form of land sales, grants or conservation easements. Often conservation may involve a service instead of a hard product. Many people are interested in the land but few understand how to manage resources. Opportunities abound for individuals to provide broad based managerial service. These managers need to be able to add real value to the resource by improving wildlife populations as well as the aesthetics such as riparian habitat. Other products and services will undoubtedly be produced and refined over time.

In contrast with a rancher who is trying to maximize production of beef from a finite set of resources, the resource manager's goal is to blend production from the three values in a manner which maximizes profit. To do this one must look for synergy between products which slash costs. An example is a recreational enterprise which is based on traditional ranch activities like branding and gathering cattle.

Conclusions

The greatest danger a rancher faces today is that the cow, once only a tool, has become a way of life, and end in herself. If ranching disappears as a viable use of natural resources it will be because of resistance to change, not an ability to evolve with the times.

Ranchers face three critical and permanent economic realities, declining real beef prices, escalating resource prices driven by conservation and recreation values, and the internalization of costs once externalized by the industry. To survive, individual ranchers must become economically relevant and use the strong forces of change in their favor.

It is when the rancher evolves into a resource manager blending commodity, conservation and recreation values into sustainable products that they will truly understand needs and desires of other resource users. This common ground will be the foundation for a new industry that answers the critical question of how to gain economic benefits from natural resources without damaging biodiversity.