

Discussion: New Federal Reclamation Law and Its Implications

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At the 1978 meetings of the AAEA, I presented a paper titled "Economics of Size and the 160-Acre Limitation: Fact and Fancy." Interior Secretary Cecil Andrus had just recently published the Proposed Rules and Regulations as ordered by the Federal Court. The EIS had not yet been written and it was generally believed that the rules would be revised either administratively or legislatively. Thus, my paper contained some facts descriptive of the current physical and institutional situation, but much more of fanciful prognostications. I examined studies on economics of size and concluded that *if* the 160-acre limit was enforced effectively, there could be consumer losses of as much as \$24 per year per capita. However, it was highly unlikely that the rules proposed by Secretary Andrus would be adopted, or if they were adopted, would be effective. Part of the problem of being effective was the possibility of trusts or of management companies allowing large acreages to be operated almost as usual.

Now 5 years later, after much research on the general subject of acreage limitation by our two authors and others, and after passage of the 1982 Reclamation Reform Act, our two authors still differ in their evaluation of the possible impacts of

the Act and still rely largely on fancy. Moore concludes that virtually nothing will be changed by the new law, whereas LeVeen argues that the law will cause significant changes in the structure of western irrigated agriculture. Let us examine their areas of agreement and disagreement and ask why disagreement on impacts still exist.

Moore and LeVeen basically agree on most of the political and legal facts leading up to passage of the 1982 Act. Political action by the landholding groups was crucial in forcing legislation on reclamation reform. Their major successes were to (1) exclude the Imperial Valley and Corps of Engineers areas from acreage limitation, (2) eliminate the residency requirement, (3) eliminate sale by lottery, (4) eliminate the age requirement for ownership, and (5) raise the acreage ownership limitation to 960 acres per individual family. Their major losses were to accept (1) cross-district compliance, and (2) full-cost water for any water received for an operating unit in excess of 960 acres whether owned or not. Large corporations must pay full-cost for water on operations above 320 acres and are limited to ownership of 640 acres.

Our authors also seem to agree that a 960-acre operation is large enough to capture the potential economies of size, although larger units will face diseconomies as they face full-cost water pricing. Thus, whatever the ultimate effect on the structure of agricultural production, the consumer is unlikely to be affected adversely, as was originally a source of concern under the 1978 proposed rules.

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Finally, both authors agree that few, if any, of the original proponents of enforcing the original law—National Land for People, Inc., small farmers, and farm workers—will receive direct benefits.

The disagreements seem to be based on disagreements of economic facts and future political realities. Moore recognizes that if the new law is enforced effectively farmers in some districts, especially the Westlands, will be faced with higher cost water and the necessity to sell land under recordable contract. But Moore, a long-time observer of the western water scene, foresees continuing court battles and enforcement problems, does not believe that full-cost water pricing will reduce farm size in most areas, and generally concludes that the whole exercise in challenging administration of the original law will have been futile. He notes that land trusts may be formed or professional management-service companies may provide the vehicle for the operation of very large units. His current fancies are very much like those of mine as of 1978.

LeVeen, while writing off the small farmers and farm workers, suggests that the landowners may have won the battle but lost the war. I attribute his view to, first, seeing what he wants to see; and second, computing the full cost of water much higher than does Moore.

Without belaboring the point, it has been my impression over the last few years that LeVeen has held a more favorable view toward enforcement of the 1902 law and encouragement of small-scale farming than Moore. LeVeen agrees that the small-scale farmers lost but wants to see some "good" in the revised act. Perhaps he is just less cynical than Moore and I. He argues that the "... pricing provisions of the new law are significant ... Western landowners ... will experience greater incentives to utilize existing supplies more efficiently ... both pricing provisions and the new acreage limits will serve to weaken support for the Reclamation program.

In sum, over the long run, higher water prices may well portend the end of new federal irrigation projects, greater concern with water conservation and groundwater management, and perhaps even profound impacts on the agrarian structures of some Western states."

While, as an economist, I agree with these conclusions in principle, I do not see as rapid nor as drastic change as LeVeen appears to suggest. Of course, new reclamation projects will be few, but that will be a function of little new cheap water to develop—not a function of the Reclamation Reform law. Fewer projects will be built in any case. Further, LeVeen's conclusions about the significance of full-cost water pricing for operations larger than 960 acres appear to be related to his economic interpretation of the reform law and its probability of strict enforcement.

Moore, in his Table 2, has estimated the Preliminary Rules and Regulation full-cost water price per acre-foot for 1983 (at the farm headgate) and compared it to the estimated maximum ability-to-pay (in 1978). Exactly how either measure was computed is not specified, but he estimates full-cost as less than ability-to-pay in six of the nine districts examined. In two of the remaining three districts, including the Westlands District, the difference is so small that without precise definitions of the two measures, no hard conclusions about the advantage or disadvantage of farming more than 960 acres can be drawn.

LeVeen also presents data on full-cost water. His estimates are two to ten times higher than Moore's for eight of the nine districts for which both give data. The one exception is for the Westlands where LeVeen's estimate given in his table is only half of Moore's. However, when the Westlands are discussed in the text, full-cost for the Westlands is 150 percent of Moore's estimate. Obviously, LeVeen would see more significant effects on farmers than would Moore, if LeVeen believes his own

data. However, it appears that LeVeen is using estimates from an earlier EIS study where it was assumed that the new full-cost price must include interest on deficits accumulated from past inflation of operation and maintenance costs. Both Moore's and my reading of the proposed rules find that unpaid interest prior to the 1982 Act is forgiven. I admit that interpretation of the proposed rules as presented in 17 pages of small type in the Federal Register is a difficult, if not impossible job.

Both Moore and LeVeen suggest that farmers may blend their water costs and look at average factor costs rather than marginal factor costs. But neither define their cost or value estimates in conceptually precise terms, so these conclusions do not necessarily follow. Clearly, one does not increase profits by buying water whose marginal factor cost exceeds its marginal value product. But Moore's estimates of full-cost water compared to ability-to-pay are close enough that one might conclude that profitability might occur with full-cost water. LeVeen's estimates lead me to wonder how he concludes that averaging would be profitable.

Surprisingly, after stressing the significant effects of the new law throughout most of his paper, LeVeen concludes with five significant areas of interpretation that could cause "less than rigorous enforcement of the new law." First, the equivalency rule allows owners of inferior land additional access to cheap water. This rule

may allow many landowners to escape acreage restrictions altogether. The rule is hardly a conservation measure. Second, complex annual reporting of farm ownership and operation will be required. Third, districts will have little incentive to enforce the full operations and maintenance cost rule where individuals have amended their contract and the district has not. Fourth, the exact nature of an individual operating unit has not been and will be difficult to define. Finally, and in my view the most important problem, what does full-cost pricing actually mean? The rules say only that standard accounting procedures be used on that portion of the repayment responsibility that has been assigned to irrigation. Given reclamation history, I assume full-cost will mean average historical cost based on as small a portion of the total project as possible. These potential problems with the law look very important to me and I am surprised LeVeen does not see the Reform Act as futile as does Moore.

In conclusion, we now have a new act and new proposed rules, but little more is known of the future economic effect of attempting to enforce a reclamation law than was known in 1978 when this whole exercise began. Perhaps the only really significant effect of the new law is to eliminate the clause in the 1902 Act that prohibited the use of Mongolian labor in project construction. I agree that it was time to make that change.