FARRM ACCOUNTS: STABILIZING AND IMPROVING
THE ECONOMIC CONDITION OF OUR FARMERS

HEARING
BEFORE THE
SUBCOMMITTEE ON RURAL ENTERPRISES,
BUSINESS OPPORTUNITIES, AND
SPECIAL SMALL BUSINESS PROBLEMS
OF THE
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HOUSE OF REPRESENTATIVES
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The Subcommittee met, pursuant to call, at 2:00 p.m., in room 2360, Rayburn House Office Building, Hon. Frank A. LoBiondo (chairman of the subcommittee) presiding.

Chairman LoBiondo. Welcome, everyone. I will now convene the hearing. This is the inaugural hearing of the Rural Enterprises Subcommittee, which has been added as a new Small Business subcommittee in the 106th Congress. Before I talk about the legislation before us, let me answer the obvious question: Why is a representative from New Jersey chairing a subcommittee dealing with rural issues?

I represent the Second Congressional District of New Jersey, which covers a third of the Nation geographically. Southern New Jersey is home to a thriving agricultural community. We have many fresh market fruit and vegetable farms, nurseries and seed farms. I also grew up on a farm, so I have firsthand knowledge of agricultural issues.

American farmers feed the Nation and they also help feed the world. Our farmers also are able to grow crops in a cost effective manner. Food is most affordable in the United States. We spend a smaller percentage of our income on food than all other industrialized nations.

Our farmers perform a service and our farmers are in trouble. Natural disasters, extreme weather, fluctuating prices, uncertainties in international markets, and other factors have plagued our farmers the last couple of years. Now we are faced with farmers across the country who are in serious jeopardy. These farmers need assistance and there are several avenues the Federal Government can pursue to provide it. One step we can take is to pass legislation sponsored by Representative Kenny Hulshof and Representative Karen Thurman which would establish farm and ranch risk management or FARRM accounts. I am proud to be a cosponsor of this legislation which has significant bipartisan support in Congress and is endorsed by a broad cross-section of small business and agricultural groups.
We need FARRM accounts for many reasons. Weather and commodity prices are beyond the control of farmers and ranchers, yet they can determine if agricultural producers earn a profit and remain in business.

Saving for unprofitable years is difficult for agriculture producers because farm income is needed for operating expenses and to purchase supplies for the next production cycle. When producers earn a profit, they usually invest in farm assets that can’t be easily sold to pay expenses during difficult financial times.

Quite simply, FARRM accounts would allow a farmer to put away income in a good year for use in a bad year. This will allow farmers to stabilize their income and improve their economic condition. I want to thank Representative Hulshof and Representative Thurman for introducing this important bill. I hope this hearing will build some momentum for the legislation and we will soon find it on the President’s desk.

Before we hear from Representative Hulshof, I would like to yield to my ranking member, Representative Donna Christensen, for any comments she might have.

[Mr. LoBiondo’s statement may be found in the appendix.]

Ms. CHRISTIAN-CHRISTENSEN. Thank you, Mr. Chairman. I want to welcome everyone this afternoon to the inaugural hearing for the Subcommittee on Rural Enterprises, Business Opportunities and Special Small Business Problems. I want to in doing so thank our Chair, Chairman Talent, and Ranking Member Velázquez for adding this subcommittee to oversee the concerns of rural agriculture and small businesses that are often overlooked by committees.

The farmers and farming are indeed the backbone of our Nation and an integral part of the lives of each and every American family. The survival of this vital industry must be a priority with legislators as our farmers feed not only our country but the wider world as well.

With its provisions to allow farmers to set aside up to 20 percent of their taxable income and place it in a tax free interest bearing FARRM account, I believe that the farm and risk management bill can be an important tool in allowing our farmers a creative way of saving resources in good times and utilizing them in bad. Since money in the accounts can be withdrawn in lean years to smooth out peaks and valleys in farm income, it could well be the life preserver that many utilize in critical times.

The U.S. Virgin Islands, the district which I represent, has a small but vital farming community that can benefit from this legislation, and so I want to join my chairman in welcoming you and I look forward to hearing the testimony from our colleague, Mr. Hulshof, and those representing the farm community this afternoon.

Thank you, Mr. Chairman.

Chairman LOBIONDO. Thank you. We will—do any of the other Members wish to make any opening statements? Congressman DeMint.

Mr. DEMINT. Thank you, Mr. Chairman. Let me express my thanks for holding this hearing on this important subject, and I am disappointed that I will not be able to stay for the entire hearing,
but would like to thank the witnesses for agreeing to testify here today, especially my colleague, Mr. Hulshof, from Missouri.

America’s farmers and ranchers embody the entrepreneurial spirit of our country in exercising good stewardship of the land and in taking advantage of the latest innovations. They have not only fed their families and our country, but a great part of the world. As some of you may know, South Carolina grows more peaches than any State in the Union except California. Spartanburg County, which is in my district, is the second highest producer of peaches in the State. South Carolina is the fifth highest producer of watermelons in the United States. While farmers and ranchers can prepare for some things, an unexpected hurricane or early cold spell can severely damage crops or kill off livestock. This is especially hard for family farms to handle.

I support steps that would make it easier for small businessmen, including farmers, to save money in good years. This money could be used to level out the unexpected difficulties of bad years. The FARRM Act is a good step in this process. I believe this legislation could provide a useful framework to look at ways to address other problems that are unique to small businesses. Again, thank you, Mr. Chairman.

Chairman LOBIONDO. Congressman Thune?

Mr. THUNE. Thank you, Mr. Chairman. Let me just echo what my colleagues said and credit my colleague from Missouri Mr. Hulshof for this legislation. Sometimes I wish we could grow peach- es in our part of the world, but we grow wheat, soybeans and corn, and it has been increasingly difficult in the last few years for our producers because of the volatility of prices, which has also led to an incredible amount of volatility in their income. They need any and every tool available that will allow them to help manage that risk, that will allow them to help even out the income stream that comes from what can be a very erratic business.

I have been a supporter and cosponsor of this legislation for some time and hope that we will advance it through the process this Congress and give our producers yet another tool that hopefully will enable them to better manage the income stream that comes from their agricultural production, avoid excessive tax bills in 1 year, and better deal with the erratic nature of the income stream that comes from being in agriculture.

I think this is an important bill, and I appreciate the opportunity to hear what our expert witnesses have to say and look forward to the testimony. Thank you, Mr. Chairman.

Chairman LOBIONDO. Thank you, Congressman Thune.

If there are no more opening statements, without objection any Member who wishes to submit a statement, it will be entered into the record in its entirety. So keep that in mind.

We will move now to our first witness, and that is Representative Kenny Hulshof. Kenny represents the State of Missouri and is the sponsor of this legislation, was the sponsor of the legislation in the last session of Congress in the 105th. He has spent a lot of time and work putting this together. We are anxious to hear from you, and welcome.
STATEMENT OF THE HON. KENNY HULSHOF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. HULSHOF. Thank you, Chairman LoBiondo and Ranking Member Christensen. I was not aware that this was the inaugural hearing, and as the initial witness for the inaugural hearing, I feel especially honored to be here today. Mr. Chairman, if you would allow me to introduce my written statement as part of the record and then deviate from it if I could.

Chairman LOBIONDO. Without objection.

Mr. HULSHOF. Just to echo some of the comments already made, I think we take for granted, Americans take for granted, unfortunately, our ability to walk into a grocery store or a supermarket and pull off the shelves essentially any product that we want. And that of course is largely responsible to our country's farmers to have that luxury, and it is some of the cheapest and safest food on the face of the Earth. Again our agriculturalists deserve that credit. Yet as you pointed out in your opening statement, farming is unique in that the ability to make a profit depends on things completely out of the control of the farmers. It could be bad weather, decisions that we make in Washington.

One of the first political lessons, Mr. Chairman, that I learned on our family's farm in southeast Missouri was when the grain embargo was imposed back in the late seventies. I didn't realize what impact that was going to have on our family farm. We almost lost our family farm because of a decision made by a policy maker in Washington, and that is a political lesson that I have kept with me as we address this farm crisis.

Let there be no mistake, we are in a farm crisis in this country. I know the gentleman from South Dakota has spoken many times on the floor about this issue and the ways to try to address the problem. I happen to think that the farmers and ranchers management bill, the FARRM account, that Karen Thurman and I worked hard to push and sponsor is maybe a silver lining to the dark cloud that is hovering over American agriculture right now.

The idea is a simple one. That is in a good year, give a risk management tool to farmers and ranchers to prepare for the inevitable lean years. It is not the government making the decision. This is not talking about set-asides or loan caps, it is providing that management tool in the quiver of the local farmer to make that decision for himself or herself.

In Missouri, we have had a couple of good years up until recent times, and had this legislation been in play a couple of years ago maybe farmers who are lamenting the fact that they are going to be faced with maybe selling their family farm operations, maybe this would have provided for them a management tool to avoid that tough decision that they have facing them.

It is not often, Mr. Chairman, that so many segments of agriculture are on board a particular piece of legislation. Not only do we have 131 cosponsors as of today, and we welcome those of you not on the bill to get on the bill, but when you start looking at the commodity groups that are also in support, traditionally it is corn, wheat, soybeans, grain sorghum and livestock. But the reason that Ms. Thurman, I welcome her support on this, typically what is known as nontraditional agriculture, and, Mr. DeMint, you men-
tioned peaches, here are just a couple of the commodity groups that are completely supportive of the FARRM account, cotton, the sheep industry, sugar beet growers, the Nursery and Landscape Association, obviously wheat, beef and corn, grain sorghum, milk producers, pork producers, Sunflower Association, peanut growers, American florists, rice, canola and eggs. This is again a representative sample of those commodity groups which are in support of our legislation.

I thank you for the opportunity to talk about the legislation. I would be happy to answer any specific questions about technical aspects of the bill if you would like to put those to me. But for those witnesses who are coming behind me, the true producers of American agriculture are the ones that I think have been the strongest in telling the story.

When we first unveiled this legislation, Ms. Thurman and I had a press event, to hear the farmers themselves say if this legislation had been in effect a couple of years ago, they would not be in the straits that they find themselves now. I think that is the most compelling testimony of all.

Let me yield to you for your questions. Thank you for allowing me to talk about the bill and having a hearing on this legislation.

[Mr. Hulshof’s statement may be found in the appendix.]

Chairman LOBIONDO. Thank you. I just have a few questions before I go to the Members. Are there any restrictions of what the farmer could spend the FARRM account income on?

Mr. HULSHOF. No. The FARRM account would establish much like a trust account. Some have described it like an IRA, like an individual retirement account. It is more like a trust account. The limit is that in any given year a farmer or rancher, an individual farmer or rancher, I know in some districts like mine when we talk about corporate agriculture, that furrowed brows come about, we are talking about individual farmers and ranchers being able to put up to 20 percent of their income in any given year into this FARRM account.

That money could accumulate up to 5 years, but in the sixth year it would have to be taken out of the account. This just goes back to being raised on a farm in southeast Missouri, to have 5 good years in a row, that does not happen very often in agriculture, but in the sixth year the money would have to come out. And of course it would be taxed at that time. It is tax deferral. You would get to take that 20 percent that you put in as a deduction. Without charts and graphs, if you had in a really good year, let us say you had $50,000 of income in a good year, you could take up to 20 percent, that is $10,000, put that into a FARRM account and take that as a deduction and now you are paying taxes on $40,000 not $50,000, so you are able to put aside this money, as Mrs. Christensen mentioned.

You mentioned life preserver. I might use that in my next speech. It is sort of preparing a rainy day fund. So there is really no—I mean, you get to bring that money out for whatever purpose that you want, and when it comes out of the account, Mr. Chairman, it then becomes taxable.
Chairman LoBiondo. Just a couple of other quick questions, have you had any questions with the chairman of Ways and Means about how they might consider this?

Mr. Hulshof. I have had several conversations with the chairman of the Ways and Means Committee, Mr. Chairman. And again we were hopeful that the bill would have made it into last year’s disaster assistance package, and it came very close. I think we have more cosponsors now on today’s date than we had in the entire session of Congress last time, so we are building on our efforts from last time. I really haven’t gotten from the chairman any positive or negative response. The chairman of the Ways and Means Committee keeps his cards close to the vest and does not like to say what is going to be in the tax bill. The budget bill that we passed, I expect that there will be some sort of tax bill that comes out of the Ways and Means Committee by mid-July. And so we are hopeful if we get enough Members to cosponsor our legislation, that it would be inevitable that the chairman would have to include it in the tax bill.

Chairman LoBiondo. Is it too early for you to have received any indication from the administration of how the White House might feel about this?

Mr. Hulshof. We have not heard from the White House. And if you have any special connections to the administration, we welcome that as well.

Chairman LoBiondo. Do other Members have questions? Yes.

Ms. Christian-Christensen. Thank you for your testimony and for sponsoring the bill.

I have a question on the role of interest. Withdrawals are on a first in, first out basis, as I understand it. For example, if a farmer had $50,000 in income during years 1 and 2 of a 5-year spell, depositing $10,000 in each of those years, in year 3 his income would be say $35,000 and he withdraws $10,000 in that third year to supplement it, years 4 and 5 if his income was say $45,000, he withdraws $5,000 in each of years 4 and 5, what I am wondering is what about interest and how is it counted? If there is interest, does he first withdraw the interest attributable to year 1’s deposit and only after that start withdrawing principal from year 2’s deposit? What is the role of interest?

Mr. Hulshof. The role of interest is obviously at some point the interest that is attributable to the contribution in that year. If in fact it were taken out, it too, the interest on the amount you put in in the first year would have to come out on the first in, first out basis, and it would be taxed as ordinary income.

The strength of this provision is that it is a risk management tool for the individual producer. Again at some point you are going to have to pay tax. The idea was that we didn’t want to have a scheme or a bill set up that could be used to avoid tax completely. So if you are able to make those types of contributions, and if there were interest as a result, then it would also be taxed as ordinary income at the time it was being taken as a distribution.

Ms. Christian-Christensen. Thank you. I don’t have any other questions right now.

Chairman LoBiondo. Congressman Thune.
Mr. Thune. I know last year, Kenny, you had this scored. Have you got it scored this year?

Mr. Hulshof. Essentially the score is the same. In the 5-year window it would be a loss of revenue, and again I use that as a term of art that joint taxes uses, $500 million over 5 years, $900 million over 10 years.

So again, I think that it is something that is doable. Again the numbers are favorable. I think the numbers are favorable because again we are talking about tax deferral rather than tax avoidance. But $500 million over 5, $900 million over 10.

Mr. Thune. That is an important point because it is tax avoidance in the 5-year window. However, someday those taxes are going to be paid unless a producer passes away, and then the government gets it through the death tax.

It really is a tool, and it is a savings plan, too. Given the irregularities of farm income, in good years, if there was an incentive for farmers and ranchers to put money aside for the down years, I think they would, particularly if they can avoid the enormous tax liability that they get in a good year.

Mr. Hulshof. If I can expand on your point, Mr. Chairman, if you were to be asked by those who oppose the legislation, gee, we have done a lot for American agriculture in the last bill—

Chairman Lobiondo. Does anyone dare oppose this?

Mr. Hulshof. I hope not. But what I would say and, Mr. Thune, building on your point, we have done some things for American agriculture like the net operating loss carryback. We changed the rules. We enacted permanent income averaging, but income averaging is only good in an up year, and that is when you have excess income you can take that excess income and spread it out and average it over the preceding couple of years to find yourself at least with a more steady income stream, and that is useful as well as far as risk management, but that is only available to farmers in a good year and there is nothing for farmers in a bad year. We have seen situations where we have conversations with agricultural economists, maybe income averaging in conjunction with FARRM accounts where you could spread some out over the preceding years for income averaging and put aside some money into a FARRM account to prepare for the down years.

So we see the FARRM account legislation really as a complement to income averaging because again income averaging is good only in a good year. There is no management tool available to help manage risk in a down year. That is why we think that this legislation, its time has come.

Mr. Thune. I think it does make a lot of sense. It is a nice complement to a lot of things that we have done previously. Clearly there is a need, I think, to give our producers and the cyclical nature of the business itself as many tools as we possibly can. And I think again the added advantage, when times are good there is a tendency to not put aside for the rainy day, and I think the savings plan component and the incentive that it provides is a very useful and helpful tool, and one for which I hope we can get a majority support in the Congress. And hopefully we can get your committee to move on this and get it through Congress this session.

Thank you.
Chairman LoBiondo. Congressman Baird, do you have any questions?

Mr. Baird. No.

Chairman LoBiondo. Congressman Sweeney.

Mr. Sweeney. Thank you, Mr. Chairman. I apologize for being a little late. I was actually doing a dairy press conference. I have submitted a statement for the record.

[Mr. Sweeney’s statement may be found in the appendix.]

Kenny, I just— I want to say that I think this committee needs to send a strong message in support of your legislation, and just this morning I was at a dairy farm in my district and had an interesting question from one of my dairy farmers and I would like you to answer as best you can.

Given the volatility in dairy pricing and what is less than a perfect response by the Federal Government in terms of stabilizing that market, does this bill not provide family farmers, dairy farmers the opportunity to be more self-sustaining, and why can’t they do this for themselves?

Mr. Hulshof. Both good questions. Absolutely this provides the ability for the producers themselves—I wasn't here, and some of you were here, back when the Freedom to Farm was initially passed, the last farm bill when it came to the Agriculture Committee. As we talk about phasing out or phasing down government subsidies and getting agriculture to make their own decisions, whether my father wants to plant fence row to fence row, that should be his decision. The corresponding promise was that we would aggressively market our agriculture products, and unfortunately we have maybe not seen that and we have used agriculture products and sanctions, and there is also discussion about sanctions reform as well, but I think we have a duty in Congress to provide those management tools for agriculturalists to prepare. The other question, Mr. Sweeney, you asked is—and even actually, Mr. Chairman, the editor of my hometown paper has shown some opposition, what is so different about agriculture? We would not do this for a shoe manufacturer or a textile plant.

And I think the answer is that agriculture is a unique type of livelihood because so many things are completely out of your control where you have commodity markets that you have no input. You have political decisions, you have weather. So many things that are completely out of your control that this is the type of management tool that we really do need. Otherwise we will see, as we did last year, where Congress has to come back and provide a supplemental appropriation of disaster assistance. It would be great if we were in a situation where we would not have to do that, have acts of Congress because we have allowed farmers and ranchers to provide these management tools for themselves.

Mr. Sweeney. And the answer my farmer gave to me, last year we lost money, we had a tornado that hit us, the Federal supplement has not arrived yet. We are on very tight margins, and this year with a 40 percent drop in prices in March alone, I am looking at a loss of $15,000 so far. How can I possibly save money?

I thank you, Congressman and Mr. Chairman.

Chairman LoBiondo. Any further questions of Congressman Hulshof? Kenny, thank you very much.
Mr. HULSHOF. Mr. Chairman, thank you very much.

Chairman LoBIONDO. I am going to ask the second panel to get ready, but before we do that, we have Congressman Baird, who will not be able to stay with us the entire time, and you would like to introduce a guest?

Mr. BAIRD. Thank you. It is a real pleasure as the representative from southwest Washington State to introduce one of our friends and a person who can speak with great ability on the importance of this particular bill. Like the folks who commented earlier, I want to commend the sponsors of this legislation but, most importantly, I want to introduce Steve Appel.

When we talk about farm challenges, here is a gentleman who is a third generation farmer. He is from the small town of Dusty, Washington. I think we have two great names, a gentleman Appel from Washington State from a farm town named Dusty. You can't get better than that, but you actually can because as a wheat and barley grower, Mr. Appel has been active in the Farm Bureau since 1974, so he speaks with great authority on having seen Federal proposals come and go, sometimes to the detriment and hopefully sometimes to the benefit of farmers.

He sits on the board of directors of both the American Farm Bureau and the Farm Bureau National Bank, and he has been a strong advocate for exports of American agricultural products. Having myself grown up in a farming community, it is a pleasure to welcome Mr. Appel for his testimony, and I want to thank him for his service to farmers across the country and in our State of Washington.

Chairman LoBIONDO. Thank you, Mr. Baird.

I now ask the second panel, Wayne Nelson, who is the President for Communicating for Agriculture, to come up to the witness table; and Ed Bergamo from Vineland, New Jersey, my hometown, a farmer in Vineland, New Jersey; Marlene Brown, from the Iowa Farm Bureau Federation; and Stephen Appel, from Dusty, Washington.

Mr. THUNE. Mr. Chairman.

Chairman LoBIONDO. Yes.

Mr. THUNE. It says here that Wayne Nelson comes from Washington, D.C. I happen to know better than that. He comes from Winner, South Dakota, which is very near my home area. When he speaks, his perspective is one which I am sure is with a great deal of authority on the subject and we would not want to confuse anybody to think that he is from Washington, D.C.

Chairman LoBIONDO. We will make sure that the record reflects that correction, Congressman Thune.

Welcome to our second panel and to start off, I would like to ask Wayne Nelson to go ahead. Thank you for joining us.

STATEMENT OF WAYNE NELSON, PRESIDENT, COMMUNICATING FOR AGRICULTURE, WASHINGTON, DC

Mr. NELSON. Thank you, Mr. Chairman and members of the committee. I thank you for the opportunity to testify today on behalf of the members of Communicating for Agriculture in support of H.R. 957, the Farm and Ranch Risk Management Accounts legislation. I commend you for holding this hearing on the legislation, and
especially Congressmen Hulshof and Thurman for introducing the legislation.

My name is Wayne Nelson and I am President of Communicating for Agriculture. CA is a 26-year-old national nonprofit rural organization made up of farmers, ranchers, and rural small business people in all 50 States. I am also a grain farmer from Winner, South Dakota and I can tell you firsthand about the difficulties that farmers face in fighting the roller coaster ride that the agricultural economy has become. I need not tell you how serious the problems are facing the American agriculture economy right now. Virtually every commodity has suffered severe price declines and farmers throughout the country are losing money. In January of this year Communicating for Agriculture launched what we call our campaign for family agriculture. Its goals are to establish a stronger farm safety net, to restore competitive livestock markets, and to provide new financial management tools producers can use to strengthen their economic security. CA has several recommendations for Congress, such as strengthening crop revenue insurance, mandatory livestock price reporting, strengthening antitrust oversight, export development and even a unique new proposal we have developed called the price enhancement program that is beginning to generate some interest.

But from the very beginning, our campaign has had its utmost goal of passing the Farm and Ranch Risk Management Accounts. It is fundamentally good tax policy as well as providing an incentive for farmers to save in good years for use in bad. In fact, Communicating for Agriculture has been very supportive of this concept for a number of years. Nine years ago we introduced a similar concept for tax deferred savings accounts with some key policymakers in Washington, D.C.

In a nutshell, FARRM accounts would be a self-help tool that would help farmers and ranchers to set aside tax deferred income in good years and draw the money back out later, perhaps in years of lower income when it would be taxable.

FARRM accounts are a prime example of countercyclical policy, and that is exactly the kind of public policy for agricultural support that many leading economists are saying that we need. While FARRM accounts themselves cannot replace the need for an agricultural price safety net, nor can they replace the need for a workable crop insurance program, they would be a management tool that farmers would welcome and would use.

Some skeptics may be critical of FARRM accounts because of their perceived cost at a time when Congress is facing budget pressures for other necessary farm income supports and because in a year like this when prices are so low, very few farmers will be able to start a FARRM account this year.

We urge you to look a little bit deeper. Number one, if indeed few farmers will have profitable years in 1999 and not be able to invest in a FARRM account this year, that also means that there will be correspondingly little cost in the government in any delayed tax revenue.

Number two, there is no better time to pass FARRM accounts than now, except if Congress would have passed it 4 years ago when the concept was first introduced. Imagine if FARRM accounts
would have been in place in 1996 and 1997 when grain prices were relatively high. My farm in South Dakota, in western South Dakota, last year I sold wheat for $1.89 a bushel, and in 1997 I sold wheat for $4.50 a bushel. So you can see the great differences we have from year to year in our prices.

Think of what has happened with pork producers and pork prices in the year between 1997 and 1998 and how FARRM accounts could have helped.

Income averaging was made permanent last year, which helps a great deal, but it is only for 2 years. FARRM would complement income averaging by helping farmers and ranchers to even out the peaks and valleys of farm income for up to 5 years. We hope the roller coaster will start to rise again before too long, but the facts are the top agricultural economists are saying under current conditions, American agriculture is likely to continue to see these big swings in income and prices. It is dependent upon unstable, yet competitive world markets, susceptible to harm from currency fluctuations, and of course the impact of adverse weather. It is far less protected under the current farm policies than previously.

There are few, if any, sectors of the economy that operate in the kind of volatile conditions as agriculture. FARRM accounts would give producers one tool that would help them weather these economic storms a bit better. Communicating for Agriculture has a slogan. We say, “CA works to advance good ideas for rural America.” We think FARRM accounts is a good idea, and we urge you to pass it. Thank you very much.

[Mr. Nelson's statement may be found in the appendix.]

Chairman LOBIONDO. Thank you, Wayne, for your testimony. What we will do is go through the opening statements and testimony from each of the panelists and then we will go into questions. Second is Ed Bergamo. Ed is a fourth generation farmer, who is a good friend over a lot of years and actually a neighbor, too. Ed, thank you for joining us today. And like many of our other active farmers, he has taken time out from one of the busiest times of the year to be with us.

STATEMENT OF ED BERGAMO, JR., FARMER, VINELAND, NEW JERSEY

Mr. BERGAMO. Thank you, Mr. Chairman. I would like to say good afternoon to the other members of the committee.

My name is Ed Bergamo, as Congressman LoBiondo said. I come from South Jersey, and I have been a farmer my entire life.

I want to thank my Congressman, Frank LoBiondo, for giving me the opportunity to speak to you today. Congressman LoBiondo has been a good friend of farmers in southern New Jersey. I am a fourth generation farmer operating a 120-acre vegetable farm with my younger brother Paul as well as my father, Ed. We grow a variety of herbs and vegetables which we sell at our local produce auction. Our operation is obviously small, especially compared to the larger operations in other parts of the country, but we have a higher profit per acre ratio than, for instance, a 1,000 acre wheat farm.

Like all farmers, my livelihood depends on many factors, weather, market fluctuations, international competition, distribution and supply costs, as well as many other circumstances. Every year is
a challenge, and every year is different than the previous year. To run a successful small farm, you need to be a good grower but you also have to possess financial management skills. Every year I run the risk of being in a different tax bracket. In good years I am thrust into the upper brackets, essentially paying a penalty for my success. In bad years, I find myself in lower brackets. As a specialty grower, I am not eligible for many of the subsidies that are available to program crop producers through the U.S. Department of Agriculture. If I have a bad year, it is up to me to figure out how to pay the bills and plan for next year’s crop.

Having a mechanism like a FARRM account that would allow me to save some of my income for use in more difficult times would be extremely beneficial. It would provide an incentive to save for a rainy day, and it would allow me to avoid the higher tax penalty when I have had a successful year. Managing a successful farm is a delicate balancing act. You have to strike a balance between many uncontrollable factors such as weather and price fluctuations. FARRM accounts would provide a stabilizing force in farming. Rather than proceeding on a boom or bust situation, FARRM accounts allow farmers to spread out the success from good years to years that are not so successful.

This principle will inevitably keep more farmers in business. I have known many farmers in our area that were forced into severe debt by a bad year. Eventually, they have had to liquidate their farms just to pay their creditors. FARRM accounts can lessen that phenomenon by allowing good fortunes to offset difficult seasons. It also reduces the tax crunch that inevitably results after a good year.

I understand the reality of a graduated income tax, but for farmers with fluctuating income, our tax system almost provides a disincentive for success. The better you do, the more you are taxed. One suggestion I would make in regards to the implementation of the bill is to make it as flexible in regards to income eligible as possible. Because farm incomes vary so greatly from year to year, tight income restrictions could severely limit the number of farmers who could take advantage of the legislation. I understand the sponsors of the bill used a wide definition of agriculture for determining eligibility for FARRM accounts. That is encouraging. Often, specialty growers like myself do not qualify for traditional agricultural assistance provided by the USDA. A broad definition of farming will enable more small and specialty farmers to take advantage of FARRM accounts. Farmers in southern New Jersey and across the country are experiencing extremely difficult times. FARRM accounts would provide much needed relief to farmers who are struggling to get by.

I want to thank Representative Kenny Hulshof and Representative Karen Thurman for sponsoring the FARRM account legislation, and I want to thank Congressman LoBiondo for allowing me to testify today.

[Mr. Bergamo’s statement may be found in the appendix.]

Chairman LoBIONDO. Thank you, Ed. The next panelist is Marlene Brown, a member of the Women’s Committee of the Iowa Farm Bureau Federation.
Ms. Brown. Thank you, Mr. Chairman. My name is Marlene Brown. I along with my son Scott operate a 240-acre farm. We raise corn and soybeans. We also have a small cow/calf herd, and in the past we have raised hogs and we have had a dairy herd.

I am here today representing the Iowa Farm Bureau Federation. IFBF is a general farm organization of about 160,000 member families who produce every commodity that is commercially marketed in our state. Farm Bureau commends the Small Business Committee and the Subcommittee on Rural Enterprises for calling this hearing to focus attention on the importance of saving and investment incentives for farmers. This is my first opportunity to testify before a congressional committee, and I am pleased to be here to speak today on behalf of the Farm and Ranch Risk Management Accounts and their potential benefits to farmers.

Farm Bureau supports the creation of the FARRM accounts to help farmers and ranchers manage risk through savings. Using the FARRM accounts, agricultural producers would be encouraged to save money in good economic years and to use those savings in the ultimate lean economic years which we experience.

Like other small business persons, farmers and ranchers have predictable expenses. Each month we must pay for fuel, animal feed, equipment repairs, building maintenance, insurance, utilities, and meet a payroll. We must plan for seasonal expenses like taxes, seed, heat and fertilizer, and we also budget for major purchases like equipment, land and buildings.

While many expenses can be predicted and to some degree controlled, farm income is neither predictable nor controllable. The prices we farmers and ranchers receive for our commodities are determined by forces over which we have no control: the markets and the weather. Farmers and ranchers do not know from one year to the next if our business will earn a profit, break even or operate in the red. Few other industries must face such a challenge year after year after year. What all farmers hope for is that the good years will outnumber the bad ones.

Believing that better times are coming, farmers and ranchers get through tough times by spending their retirement savings, borrowing money, refinancing debt, putting off capital improvements and lowering their standard of living. All of these activities damage the financial health of a farm or ranch and the well-being of the family operating the business.

The 1996 farm bill phased out government price and income supports to farmers through the year 2002. Farmers and ranchers supported this phaseout because of the promise of expanding market opportunities and the assurances by Congress that new ways would be found to help farmers and ranchers manage their financial risks.

Many growers of perishable commodities, along with the producers of livestock, poultry and other nonprogram crops, have never had the benefits of a farm program safety net. We rely on our management skills, marketing ability and a little luck with the weather to make our businesses turn a profit. We are always look-
FARRM accounts are simple and that is why they sound so appealing to farmers. Under H.R. 957, the Farm and Ranch Risk Management Act, eligible producers could choose to defer taxes on up to 20 percent of their income for up to 5 years. Farmers would decide when to save rather than to spend and when to withdraw and pay taxes on that money. I know that we would use a FARRM account as a risk management tool on our farm when our income allows us to do so.

Farm Bureau asks each of you for your support on the FARRM accounts. We urge Congress to pass them into law as soon as possible. Their creation will give farmers and ranchers a meaningful incentive to save for a rainy day and provide a very valuable tool for managing financial risk.

I thank you for being here today.

[Ms. Brown's statement may be found in the appendix.]

Chairman LoBiondo. Thank you, Marlene, for your statement. The last panelist will be Stephen Appel.

STATEMENT OF STEPHEN J. APPEL, PRESIDENT, WASHINGTON STATE FARM BUREAU, OLYMPIA, WASHINGTON

Mr. Appel. Thank you, Mr. Chairman. My name is Steve Appel. I come to today's hearing from Dusty, Washington, where my neighbors know me as a third generation family farmer who raises wheat and barley. And I would like to thank Congressman Baird for the glowing introduction. I even impressed myself.

I do want to set a couple of things straight. My name is Appel. I raise no apples. I raise wheat. And Dusty is a well named town. I invite you all to come there sometime during the summer, and you will know why it is called Dusty, Washington. One other thing, I and my fellow citizens from Washington State like to refer to that as the real Washington.

Thank you for inviting me to speak at today's Small Business Rural Enterprises Subcommittee hearing. My statement is made on behalf of 4.8 million member families of the American Farm Bureau Federation. I sit on AFBF's board of directors, a distinction made possible because of my post as president of the Washington State Farm Bureau. It is especially fitting that the Small Business Committee is now focusing on agriculture because these are especially hard times for many farmers and ranchers.

Last year, in some parts of the country, extreme weather or disease destroyed the fall's harvest or made feed scarce for livestock. Others were blessed with good crops last year, but faced low prices because of troubled markets overseas. And now agricultural forecasters are predicting that 1999 will be just as difficult a year for farmers as was last year.

Farm Bureau is most appreciative of the legislation passed by Congress last year to provide immediate relief to farmers and ranchers. However, if similar emergencies are to be minimized in the future, farmers and ranchers must have new and innovative ways to deal with uncertain incomes caused by weather and markets. Congress must act to give producers the risk management tools they need to manage their financial jeopardy. Farm and risk
management accounts, FARRM accounts, are exactly that kind of risk management tool. Using these accounts, producers will be encouraged to save up to 20 percent of their net farm income in the higher income years by deferring the taxes on that income until the funds are withdrawn. The program is targeted at real farmers, contains guarantees that the funds will not be at risk, and prevents abuse by limiting how long savings could be held in an account to 5 years time.

I can’t help thinking how different things would have been if FARRM accounts had been put on the books 5 years ago and farmers like myself could have had farm savings to use in this last year. Legislation to create FARRM accounts, H.R. 957, has been introduced by Representatives Kenny Hulshof and Karen Thurman. These are two smart representatives because when they have written their bill, so producers of all commodities from all size operations who come from all parts of the country can take advantage of FARRM accounts. That is the reason over 30 agricultural organizations and more than 125 representatives support the bill. A list of those agricultural groups who join Farm Bureau in supporting the FARRM accounts is attached.

We know that members of the Small Business Committee understand the need for FARRM accounts, but I must tell you that many of my fellow farmers wonder why it is taking Congress so long to get them passed into law. When agriculture agreed to support the phase out of farm programs in 1996, it was with the full expectation that Congress would make good on the promises that it made to reduce regulations, expand markets, and provide risk management tools. Frankly, we are still indicating waiting for some of the freedoms that were to come with Freedom to Farm.

I have been told that the passage of H.R. 957 would cost up to $500 million in 5 years and up to $900 million in 10 years. But rather than talking about the cost, I think we should be talking about the benefits of the legislation. Would it not be better to say that FARRM accounts will provide an important safety net for farmers and ranchers worth just short of a billion dollars?

My position as president of the Washington State Farm Bureau gives me responsibility for the grass roots process that our organization uses to develop policy positions. I listen to hours of debate on farm policy in Washington State, and I can’t think of another idea that has more enthusiastic support than the Farm and Ranch Risk Management Accounts program. Farmers like the idea that the government wants to make it easier for them to save for a rainy day.

I ask each and every member of the Small Business Committee to get behind FARRM accounts, please. Cosponsor H.R. 957 if you haven’t already. Speak to your fellow representatives about the wisdom of doing something to improve the farm economy long term. The future of production agriculture is dependent on new and innovative tools like FARRM accounts, to help us as farmers manage our financial risks.

Thank you.

[Mr. Appel’s statement may be found in the appendix.]

Chairman LoBiondo. Thank you, Steve, very much. We will now go to questions.
I want to start off, I have a question that really could apply to each one of the panelists if you want to take a shot at it. Why do you think farmers would utilize, if this legislation were passed, FARRM account as opposed to if they had the money in a particular year investing in machinery or spending it in some other way on the farm? Wayne, do you want to start off?

Mr. Nelson. Sure. Farmers got in the habit, I guess, in the 1970s and early 1980s of using investment tax credit. Your only tax tool at that time was to buy more machinery or livestock facilities in order to use the investment tax credit, and that became their way of reducing their taxes.

In an upward swing in the agricultural economy, that works well. But what happened in the middle 1980s, was this great downfall in income, and a lot of this machinery was not needed any more and there were still payments to pay for the machinery. Instead, this seems to be a much better plan looking at it from my standpoint as a farmer and also our farmer members. Let us have this credit, set it aside, have it tax deferred, and better manage it with just money and not having to purchase the equipment. That is an important point. So this would be very useful to farmers and ranchers all over the United States.

Chairman LoBiondo. Ed, what is your take on our part of the country with our type of farming, with the folks that we know? Would they utilize this, do you think, as opposed to spending the money on other needs?

Mr. Bergamo. I think so. If it were available, I think people would find a way to work it into their tax and financial planning and their general operation.

If it is available, you find ways to use it. There are very few—as Wayne said, there are very few tools left as far as ways to manage your finances. Buying equipment is a good thing, but it is only good if you need that piece of equipment. We have done it before. But depreciation or leasing, you have to spend money to try to save money, and it has gotten to the point—people were buying equipment as a way to avoid taxation and to enhance their operations, but it is a vicious cycle and you still have to pay for it, and you better need the equipment.

I think that it would be a good opportunity for farmers to be almost forced to save because it would be an attractive way to do so. When they did find a year that was not so good, the money would be there. It is a self-help thing. It is better than a government program.

As Mr. Appel pointed out, the majority of the farmers in our area had a good year, but the majority of the farmers in his area did not have a good year. Next year the situation might be reversed. Different areas of the country experience different weather conditions, and what have you, or different products that they produce are affected differently.

This would be across the board. It would be fair for everyone. You would be able to utilize it using your own situation as the guide. Your experience and your understanding of your business rather than having someone come in and try to put—we are not really—don’t have many opportunities of aid availed to us, but when they are, they are not black or white tailored to every niche
of agriculture. This is across the board, and every part of the country would get treated evenly and it would seek its own level. Where people have good years and others don’t, it would work itself out. I think even if people were not aware of it and its benefits, they would find ways to use it and be happy that it is available.

Ms. BROWN. I can only echo the comments made about the benefit of FARRM accounts being across the board for the people of the United States. I think it is a wonderful plan and it does help out everyone. And as far as saving to use something in a coming year, we put drainage tile one year because we had extra money. The next year we could have used the extra money, but you sure can’t dig up tile and sell it to raise cash. This sounds like a wonderful plan.

Mr. APPEL. I concur with what everybody has said. We have all done it. Many times, our tax accountants have come to us and said “you have had a good year this year. It is time to buy something. Go buy a new combine, or tractor because we have to reduce this tax bite that you were going to have.”

One of the people who traveled to Washington, DC with me is a part-time farmer and a part-time tax accountant. I was putting this whole idea past him and he became very excited over the prospect that there is another option that he could recommend to farmers that wasn’t a buy now, pay later situation because that has gotten so many people into trouble.

It is not uncommon for a farmer to go out in that good year when he has a lot of disposable taxable income, and buy a combine because he can deduct all of this money. But most of us don’t have money to pay 100 percent right then, so we go to the bank and borrow the money. What do you suppose happens 3 years down the road, like this year, when you are going to be paying for that combine, and you don’t have the dollars to do it. So actually this is a tool that is tremendous for the accountants to recommend to the farmers.

Chairman LoBIONDO. Let me move on to other members for questions. Does the ranking member have a question?

Ms. CHRISTIAN-CHRISTENSEN. I don’t really have a question. I want to thank you for your testimony and just to let you know that everyone has said the biggest problem with this bill is that it didn’t come several years ago, and that message has come across quite clearly. And as your representatives for farmers and rural businesses, we will do our very best to see about getting it through.

Mr. BAIRD. I want to thank all of you for your outstanding testimony and hard work on farmers. Part of our mandate in this committee is to deal with a broad spectrum of rural enterprises. This kind of legislation, which I am proud to cosponsor, not only will help the farmers, but it will help the farm communities because when the farms have downturns and they don’t have resources to draw upon, everybody in the community from the local cafe to the feed store, they all suffer as well. And I think this is one of the many steps we need to do. Inheritance tax reform and other steps to help out also make sense.

I have had a chance to read the bill and the one concern I would have is making sure that we choose the financial institutions in which the trusts are placed well, lest we run into a time where a
sort of broad economic downturn hits and the institutions that are holding your money at just the time you need it don’t have that money. I want to ensure that, and I am sure no encouragement is needed, but I am sure you will inform your members well when this opportunity arises because I think it is a superb bill, and I am proud to cosponsor it. Thank you for your excellent testimony.

Chairman LOBIONDO. Thank you, Congressman Baird.

Ed, can you give us an example of price fluctuations that you have experienced from 1 year to the next with crops that you are involved with in our part of the world?

Mr. BERGAMO. Yes. There are price fluctuations and there are demand fluctuations. For example, last spring due to bad weather on the West Coast, spinach that we have very early in the spring, for example, that grows over the winter and it is one of the first crops to come to market, the movement on it was well and the price was reasonable where we were able to make a profit on it. This year there is an oversupply of product, so that not only is the price low, but it is just at the point where you can make a small profit on it, but there is no demand.

So those factors both play against one another. So you get situations where maybe a year ago a product was worth say 10, 12 or 15 dollars a box. Once you are in double digits you are doing very well in the type of farming that we do. That same item this year might be 4 or 3 dollars, clearly under the threshold of profit. And you do have growers who for whatever reason will produce and intensify the problem by putting more product into the market stream and therefore creating a further glut.

So there are a number of factors that come into play. Demand and price go hand in hand, and you are really at your own wits to try to come out ahead. The biggest thing that we try to do on our farm is if we can’t make something and sell it for a profit, we leave it in the field. You can go broke while you are working because you add additional costs of labor and packaging and transportation and everything else. Sometimes you are better cutting your losses right off the bat rather than trying to chase something that is not there.

Chairman LoBIONDO. So after planting, fertilizing, irrigating, cultivating, everything that has to be done, the market isn’t there and you have to just let it go?

Mr. BERGAMO. Right. It is especially bad when you experience dry weather conditions and then you have to irrigate it to keep it marketable until the last possible minute. And sometimes something breaks and the quality might be not nearly what it should have been 2 or 3 weeks earlier on some items that can stand in the field, and then you sell something that is not what in terms of quality you would like to sell. You can drive around our area and see fields of spinach that are being chopped up just because there is no demand and there is no price. That is just an example.

Maybe another commodity it will reverse the other way. There are times when you happen to catch a lot of situations like that in a given year. And by the time Thanksgiving rolls around and our season starts to wind up, you realize that you did a lot of work and you could not have worked any more hours, and yet you didn’t have the financial result that you expected. That is just the nature of
the business. You have good years and bad years, and that is what this bill is designed to try to give you some recourse, some stability there so you can plan for it without taking a real financial shot.

You can plan for it now, but you are going to pay the income tax on it, and you have to have the money to plan for it. This will give you a little easier way to do it. The government is not going to lose any money because they are going to get the money eventually.

Chairman LoBiondo. Do any of our other panelists have anything to add on the crop price fluctuation?

Mr. Nelson.

Mr. Nelson. Yes. There is also the great weather risk in many areas of the country, so you have the production highs and lows as well as the price highs and lows. A few years ago we had a freeze in western South Dakota that killed much of our winter wheat crop. We had a 4-bushel average. The corresponding—the next year we had terrific weather, good rainfall and little disease. We had a 42-bushel average. So 1 year difference between 4-bushel and 42-bushel, and not just in South Dakota, but in Dusty, Washington, and many other areas of the country. There is a good deal of production variability due to the weather.

Chairman LoBiondo. Steve.

Mr. Appel. One final comment in that area. We have another factor that keeps entering into our market situation, and that has to do with access to foreign markets and things that influence that access. Our own unilateral sanctions that we have placed on ourselves at times, and unfair trade practices or tariffs placed on us by other countries. And in this case I am thinking specifically of Washington State and Washington State apples.

We actually had a situation where the Mexican Government increased the tariff on Washington grown apples by 100 percent overnight. It devastated our market, and last fall literally hundreds upon thousands of boxes of apples hung in the trees and went to waste in the orchard. It was just pathetic, and it was exactly what these folks were describing. It costs about $20 a bin to pick a box of apples and the highest price was $15 a bin, and that was just the picking cost.

So that is an example of outside influence that can cause a disaster to agriculture in this country, and this would help also protect or give us an out. It gives us a way to live through those situations. Thank you.

Chairman LoBiondo. We will have the opportunity for 10 days if there are any members of the committee who wish to submit additional comments on the record. I want to thank the committee members for their strong statements of support for the legislation. I would like to thank our panelists for taking time out of their busy schedules to be with us.

I will convey to Chairman Talent the strong support that we have heard today, and I am sure that he will be reviewing the testimony and the transcript, and hopefully we will be able to report back to you that there will be some additional positive action which will be taken. With that, the meeting is adjourned.

[Whereupon, at 3:10 p.m., the subcommittee was adjourned.]
STATEMENT OF U.S. REPRESENTATIVE FRANK A. LOBIONDO

Welcome everyone. I will now convene the hearing. This is the inaugural hearing of the Rural Enterprises Subcommittee which has been added as a new Small Business Subcommittee in the 106th Congress. Before I talk about the legislation before us, let me answer the obvious question: why is a representative from New Jersey chairing a subcommittee dealing with rural issues? I represent the Second Congressional District of New Jersey which covers a third of the state geographically. Southern New Jersey is home to a thriving agricultural community. We have many fresh market fruit and vegetable farms, nurseries, and seed farms. I also grew up on a farm, so I have first hand knowledge of agricultural issues.

American farmers feed the nation and they also help feed the world. Our farmers also are able to grow crops in cost-effective manner. Food is most affordable in the United States. We spend a smaller percentage of our income on food than all other industrialized nations.

Our farmers perform a service and our farmers are in trouble. Natural disasters, extreme weather, fluctuating prices, uncertainties in international markets, and other factors have plagued our farmers the last couple of years. Now we are faced with farmers across the country who are in serious jeopardy. These farmers need assistance and there are several avenues the federal government can pursue to provide it. One step we can take is to pass legislation sponsored by Rep. Kenny Hulshof and Rep. Karen Thurman which would establish Farm and Ranch Risk Management (FARRM) accounts. I am proud to be a cosponsor of this legislation which has significant bipartisan support in Congress and is endorsed by a broad cross section of small business and agricultural groups.

We need FARRM accounts for many reasons. Weather and commodity prices are beyond the control of farmers and ranchers, yet they can determine if agricultural producers earn a profit and remain in business.

Saving for unprofitable years is difficult for agriculture producers because farm income is needed for operating expenses and to purchase supplies for the next production cycle. When producers earn a profit, they usually invest in farm assets that can't be easily sold to pay expenses during difficult financial times.

Quite simply, FARRM accounts would allow a farmer to put away income in a good year for use in a bad year. This will allow farmers to stabilize their income and improve their economic condition. I want to thank Rep. Hulshof and Rep. Thurman for introducing this important bill. I hope this hearing will build some momentum for the legislation and we will soon find it on the President's Desk.

Before we hear from Rep. Hulshof, I would like to yield to my ranking Member Rep. Donna Christian-Christensen for any comments she might have.

STATEMENT OF U.S. REPRESENTATIVE JOHN E. SWEENEY

Chairman LoBiondo, thank you for giving me the opportunity to speak about H.R. 957, the Farm & Ranch Risk Management Act (FARRM). I am co-sponsor of this legislation and believe it is essential for farmers.

H.R. 957 creates FARRM accounts which allow farmers to deduct 20% of their net farm income. FARRM accounts provide an incentive for farmers to save money and be prepared for economic downturns. Farming is an uncertain business. Much of farmers' profits are always fluctuating depending upon the volatility of prices, reduced export demand, changing costs, a strong dollar relative to other currencies, and crop disasters.

When the Asian financial crisis hit in 1997, farmers felt the effects since Southeast Asia has been a large market for agricultural exports, comprising 37% of the total amount exported. Each and every region can cite many down years.

H.R. 957 would ensure that farmers would be financially stable in times of financial strain. It is good business practice that farmers are given the opportunity to stabilize their profits and keep reserves without being penalized by the tax code. It is important that Congress is committed to help farmers before disaster or troubled times occur. Sure, financial assistance is made available after disaster strikes and disasters cannot be wholly avoided, but FARRM accounts would go a long way to mitigating the severity of troubled times.

The USDA has failed to successfully tailor a crop insurance program to benefit farmers and has neglected to act effectively on Congress' disaster relief. Last year in New York, USDA failed in its efforts to address severe storm damage to apples where some growers lost over 80% of their apple crop.

My district in upstate New York includes a large number of farmers who are struggling to make a living. New York's largest industry by far is agriculture. In 1996–1997, the net farm income for New York State decreased by 52.5%, the 4th largest drop in the country!
I am willing to assist my constituents any way I can and we must give them tools to manage their uncertainty with FARRM accounts.

Let me relay an example of the need for FARRM accounts. Last year dairy farmers in the Hudson Valley (and most other places) had a good year. Unlike 1997, they made some money.

They should be allowed to save some of it for a year when the price is going to be down. In fact this spring on-farm milk prices have fallen nearly 40%. I visited a farm in my district just this morning and I heard firsthand that cash reserves would surely come in handy as my farmers take to their fields to plant their new crops this month!

I thank the Chairman for bringing this matter before the attention of this subcommittee and I call on the committee to strongly endorse this concept of FARRM accounts and work to ensure that the Congress follows through and provides this important tool to our farm families.

STATEMENT OF U.S. REPRESENTATIVE RICK HILL

Mr. Chairman and Members of the Subcommittee: I would like to thank you for holding this hearing today—the first of many hearings in the very important Subcommittee on Rural Enterprises. I am proud to be the Vice Chairman of this Subcommittee and look forward to working with you Mr. Chairman and the ranking member to make it a very productive session. I am the original cosponsor of H.R. 957, the Farm and Ranch Risk Management Act. The number one industry in my state of Montana is agriculture, outpacing the number two industry, tourism, by around $800 million. In my state of Montana, when agriculture hurts, Main Street suffers.

In the last session of Congress, we passed meaningful tax reforms that benefit agriculture. Some of the more important tax reforms include a reduction in the capital gains rate, which will allow a farmer or rancher to keep more profit from the sale of assets. We also increased the exemption on estate and gift taxes, making it more affordable to pass a lifetime of hard work to your heirs. In the last session we also enacted income averaging which allows farmers to lower their tax burden by “averaging” a more profitable year with less profitable years. As you know, farmers and ranchers have been without income averaging since 1986, when Democrats eliminated that provision.

While I recognize that the tax accomplishments of last year are a good start, those victories do not go far enough. I believe that we must work to ease the tax burden on American farmers and ranchers. And, in difficult times like these, we must look for ways to give producers a wider array of risk management tools.

That in a nutshell is what FARRM accounts will do. By allowing producers to set aside up to 20% of their gross income tax-free during good years, we provide a tool to better manage the inevitable bad years when they come. Of course given the hard times in ag country, at least for Montana producers, we have not picked a particularly appropriate time in the cycle to start these accounts.

Although H.R. 957 will not provide much relief in today's agriculture crunch, I believe we must have this tool in place for the time when agriculture is once again profitable. I support H.R. 957 not as a solution for today's crisis, but as a tool for better managing future difficult times.

So many times agriculture producers are forced to cope with circumstances beyond their control. Weather conditions, and sadly, government policy, are two of the biggest factors over which farmers and ranchers have little or no control. During the past couple of years, drought and flood wreaked havoc on farms and ranches nationwide. Combine these tough weather conditions with the current Administration's failure to protect our farmers against unfair trading practices, and you have the recipe for the tough economic situation facing many producers. By allowing farmers to save up to 20% of their gross farm income during good times, we are allowing them to prepare for times like these that are beyond their control.

Given the opportunity, I believe there are many ways that producers can reduce their risk to fluctuating income. Tax deferrals, insurance, expanding exports, and tax reduction are all tools that can be utilized to reduce risk. While this bill is not the lone solution to risk reduction and is not a quick fix for today's ag problems, I believe that it is one more tool that can benefit Montana ag producers.

I am proud to cosponsor H.R. 957 and look forward to enacting further tax reductions in this Congress.

TESTIMONY OF U.S. REPRESENTATIVE KENNY HULSHOF

I would like to thank Chairman LoBiondo, Ranking Member Christensen as well as the members of the Rural Enterprises, Business Opportunities and Special Small
Business Problems for holding this hearing on the Farm and Ranch Risk Management, or the FARRM Act, legislation I have introduced with my colleague U.S. Representative Karen Thurman (D—FL). It is a pleasure to be here with you today.

Since our nation's inception, agriculture has been the cornerstone of our economy. Today, our nation's farmers feed the world. We all take for granted the ability to walk into a grocery store and choose whatever product we want from shelves filled with American farm products. We owe a debt of gratitude to our country's farmers and ranchers for this luxury that we have come to take for granted.

As any farmer and rancher can attest, those who make a living in agriculture are faced with unique challenges. Everything from weather conditions to a commodity price swing to subtle changes in a market abroad have real-life consequences for our nation's farmers and the rural economies that depend on their success. Having grown up on a family farm in Southeast Missouri, a farm my parents still operate today, I can attest first-hand to the risks and rewards of farming.

To help handle the risks of farming and ranching, Representative Thurman and I have introduced the FARRM Act. The idea behind FARRM Accounts is very simple. We should make it easier for farmers to put away some money in a good year to use down the road in the bad years that inevitable come. To accomplish this, the FARRM Act will allow a farmer or rancher to make tax free contributions of up to 20% of their income from farming to a FARRM Account. They can keep the money in the FARRM Account for up to five years, and take the money out at any time during this time period. The money would be treated as regular income for tax purposes when withdrawn.

The past few years have been tough for farmers. Natural disasters, low prices and economic downturns in vital foreign markets have caused distress in rural America. Let me give you an example of how FARRM Accounts would benefit rural economies. In the three years prior to the current downturn, farmers and ranchers in my home state of Missouri were profitable. Had FARRM Accounts been in place in 1994, those that are feeling the economic pinch of the farm crisis today could have access to the equivalent of 60% of a year's income. Talk to any farmer or rancher and they will tell you that this nest egg or rainy day fund would be extremely beneficial.

Those Americans who earn a living in agriculture are hard-working, self-reliant entrepreneurs. However, they need the risk management tools to help them use their own money to plan for their future. Making FARRM Accounts available will help empower the people who feed America and the world.

Once again, I thank the subcommittee for allowing me to testify today and for holding this important hearing. I would be pleased to answer any questions you may have relating to the FARRM Act.

TESTIMONY OF WAYNE NELSON, PRESIDENT OF COMMUNICATING FOR AGRICULTURE

Mr. Chairman and members of the committee, I thank you for the opportunity to testify today on behalf of the members of Communicating for Agriculture in support of H.R. 957, the Farm and Ranch Risk Management Accounts legislation. I commend you for holding this hearing on the legislation.

Farming and ranching are small businesses that make up the backbone of rural America. They are also inherently volatile industries. The experts tell us, and recent experience confirms, that they are becoming increasingly economically volatile. This is indeed a special problem that merits your committee's attention. The FARRM Accounts legislation is specially designed to help agricultural producers deal with this increased volatility.

My name is Wayne Nelson and I am President of Communicating for Agriculture (CA). CA is a 28-year-old national, non-profit rural organization made up of farmers, ranchers and rural small business members in all 50 states. I am also a grain farmer from Winner, South Dakota and I can tell you first hand about the difficulties farmers face in fighting the roller coaster ride the agricultural economy has become largely due to price sensitive international markets.

I needn't tell you how serious the problems are facing the American agricultural economy right now. Virtually every major commodity has suffered severe price declines and farmers throughout the country are losing money. In northwest Minnesota and eastern North Dakota there are unprecedented numbers of auctions taking place.

In January of this year Communicating for Agriculture launched what we call our "Campaign for Family Agriculture". It’s goals are to establish a stronger farm safety net, to restore competitive livestock markets, and to provide new financial management tools producers can use to strengthen their economic security. CA has several recommendations for Congress—strengthening crop revenue insurance, mandatory
livestock price reporting and meat labeling changes, adjusting loan rates, strengthening anti-trust oversight and enforcement in key industry sectors, export development, and even a unique new proposal we have developed called a Price Enhancement Program that is beginning to generate interest.

But from the beginning, passing Farm and Ranch Risk Management Accounts legislation has been a key goal of the campaign because it represents fundamentally sound tax policy as well as providing an incentive for farmers to save in good years for use in bad. In fact, Communicating for Agriculture has been very supportive of the concept embodied by the FARRM Accounts legislation going back as far as nine years, when CA introduced a similar concept for tax-deferred savings accounts for agriculture to key policy makers in Washington. CA supports H.R. 957 and S. 642 and we strongly encourage Congress to pass them.

FAARM accounts would allow farmers and ranchers to set aside tax deferred income in good years and draw money back out of the FARRM account in the lower income years offering a better opportunity to balance income from year-to-year. These accounts would let qualified individual farmers and ranchers set aside up to 20 percent of their farm income each year. These individuals would have to materially participate in farming with the amount to be set aside calculated from their scheduled F portion of their tax return. The contribution would be tax deferred but any interest earned on the account would be included in the individual’s annual gross income. There would be a 5-year limit on deposits to the account so a distribution would have to be made. Distributions would be treated as taxable income in the year they were received. Any money left in the account over the 5-year limit would be subject to 10 percent penalty. Individual farmers that don’t meet the participation guidelines for two consecutive years would have to immediately distribute the funds in the FARRM account.

In a nutshell, FARRM accounts would be a self-help tool that would help farmers and ranchers to set aside tax deferred income in good years and draw the money back out later, perhaps in years of low income, when it would be taxable. FARRM accounts are a prime example of “countercyclical” policy, and this is exactly the kind of public policy for agricultural support that many leading agricultural economists are saying we need to get back to.

While FARRM accounts themselves cannot replace the need for an agricultural price safety net, nor can they replace the need for a workable crop insurance program, they would be a management tool farmers would welcome and would use. Some skeptics may be critical of FARRM accounts because of their perceived cost at a time when Congress is facing budget pressures for other necessary farm income supporters; and because in a year like this when prices are so disastrously low, very few farmers will be able to start a FARRM account this year.

We urge you to look a bit deeper.

Number one—if indeed few farmers will have profitable years in 1999 and not be able to invest in a FARRM account this year—that also means there will be corresponding little cost to the government in any delayed tax revenue. Cost-wise, FARRM accounts simply use tax deferral.

And number two—there is no better time to pass FARRM accounts than now . . . except if Congress would have passed it four years ago when the concept was first introduced as legislation.

Imagine . . . if FARRM accounts would have been in place in 1996 and 1997 when grain prices were relatively high. Think of how many farmers would have welcomed the opportunity to set aside some of that long needed profit in a tax-deferred rainy day account. Even more importantly, think of how welcome that savings would have been this past year when grain prices fell to their lowest levels in decades. Think of the difference in pork prices between 1997 and 1998 and how FARRM could have helped. Income averaging was made permanent last year helps, but it is only for two years. FARRM would complement income average helping farmers and ranchers to even out the peaks and valleys of farm income for up to 5 years.

Dairy farmers represent a more recent, but just as good an illustration. Last year dairy prices rose to very high levels. It was the only major commodity sector to enjoy good profits last year, while all others were depressed. Then a few weeks ago, the price of milk dropped $6 per hundredweight—the largest one month drop in history. Dairying suddenly became unprofitable again with producers facing possible losses. Had FARRM accounts been in place, there is no doubt many dairy farmers would have used them to set aside income from a profitable year to bring the deferred income to be taxed in the probable lower income year of 1999.

We hope the roller coaster will start to rise again before too long. But the facts are, the top agricultural economists are saying under current conditions; American agriculture is likely to continue riding the wild side. It is dependent upon unstable,
yet competitive world markets; susceptible to harm from currency fluctuations and the impact of adverse weather; and is far less protected under current farm policies.

Dr. Abner Womack, one of the country’s leading agricultural economists from the University of Missouri and the head of the Food and Agricultural Policy Institute (a leading agricultural econometric forecasting institute), recently outlined for the National Council of State Agricultural Finance Programs both the near term dangers, as well as long term strengths of the world economy and global demand for U.S. farm products. Dr. Womack’s central message, however, was, the future is likely to bring more volatility for the agricultural economy, with “higher highs and lower lows.”

There are few, if any other sectors of the economy that operate in the kind of volatile conditions as agriculture. FARRM accounts would give producers one tool that would help them weather these economic storms a bit better.

Communicating for Agriculture has a slogan . . . we say CA works to advance “good ideas for rural America.” We think FARRM accounts is one of them, and we urge you to pass them.

Thank you.

STATEMENT OF ED BERGAMO JR.

I want to thank my Congressman Frank LoBiondo for giving me the opportunity to speak to you today. Congressman LoBiondo has been a good friend of farmers in Southern New Jersey. I am a fourth generation farmer operating a 120 acres vegetable farm with my younger brother, Paul. We grow a variety of herbs and vegetables which we sell at our local produce auction. Our operation is obviously small especially compared to the larger operations in other parts of the country, but we have a higher profit per acre ratio than for instance a 1000 acre wheat farm.

Like all farmers my livelihood depends on many factors—weather, market fluctuations, international competition, distribution and supply costs, as well as many other circumstances. Every year is a challenge and every year is different than the previous year. To run a successful small farm you need to be a good grower but you also have to possess financial management skills. Every year I run the risk of being in a different tax bracket. In good years I am thrust into the upper brackets essentially paying a penalty for my success. In bad years, I find myself in lower brackets. As a specialty grower, I am not eligible for many of the subsidies that are available to program crop producers through the U.S. Department of Agriculture. If I have a bad year, it is up to me to figure out how to pay the bills and plan for next year’s crop.

Having a mechanism like a FARRM account that would allow me to save some of my income for use in more difficult times would be extremely beneficial. It would provide an incentive to save for a rainy day and it would allow me to avoid a higher tax penalty when I have had a successful year. Managing a successful farm is a delicate balancing act. You have to strike a balance between many uncontrollable factors like the weather and price fluctuations. FARRM accounts would provide a stabilizing force in farming. Rather than proceeding on a boom or bust situation, FARRM accounts allow farmers to spread out the success from good years to years that are not so successful. This principle will inevitably keep more farmers in business. I have known many farmers in our area that were forced into severe debt by a bad year. Eventually they have to liquidate their farms to pay their creditors. FARRM accounts can lessen that phenomenon by allowing good fortunes to offset difficult seasons.

It also reduces the tax crunch that inevitably results after a good year. I understand the reality of a graduated income tax but for farmers with fluctuating income our tax system almost provides a disincentive for success. The better you do the more your taxed. One suggestion I would make in regards to the implementation of the bill is to make it as flexible in regards to income eligibility as possible. Because farm incomes vary so greatly from year to year, tight income restrictions could severely limit the number of farmers who could take advantage of the legislation.

I understand the sponsors of the bill used a wide definition of agriculture for determining eligibility for FARRM accounts. That is encouraging. Often, specialty growers like myself do not qualify for traditional agricultural assistance provided by the USDA. A broad definition of farming will enable more small and specialty farmers to take advantage of FARRM accounts.

Farmers in Southern New Jersey and across the Country are experiencing extremely difficult times. FARRM accounts would provide much needed relief to farmers who are struggling to get by. I want to thank Representative Kenny Hulshof and Representative Karen Thurman for sponsoring the FARRM Account legislation and I want to thank Congressman LoBiondo for allowing me to testify today.
Statement of Marlene Brown, Iowa Farm Bureau Federation Women’s Committee Director

My name is Marlene Brown. I, along with my son, Scott, operate a 280-acre corn, soybean and hay farm in Brandon, Iowa. We also have a cow-calf herd. I’m here representing the Iowa Farm Bureau Federation. IFBF is a general farm organization of 160,000 member families who produce every commodity commercially marketed in our state.

Farm Bureau commends the Small Business Committee, Subcommittee on Rural Enterprises for calling this hearing to focus attention on the importance of saving and investment incentives for farmers. This is my first opportunity to testify before a Congressional Committee and I am pleased to be here today to speak on behalf of Farm and Ranch Risk Management Accounts and their potential benefits to farmers.

Farm Bureau supports the creation of Farm and Ranch Risk Management Accounts (FARRM), to help farmers and ranchers manage risk through savings. Using Farm and Ranch Risk Management Accounts, agricultural producers would be encouraged to save money in good economic times for the ultimate lean economic years.

Like other small business persons, farmers and ranchers have predictable expenses. Each month they must pay for fuel, animal feed, equipment repairs, building maintenance, insurance, utilities, and meet a payroll. They must plan for seasonal expenses like taxes, seed, heat, and fertilizer. They must also budget for major purchases like equipment, land and buildings.

While many expenses can be predicted and to some degree controlled, farm income is neither predictable nor controllable. The prices that farmers and ranchers receive for their commodities are determined by forces they can’t control, commodity markets and the weather. Farmers and ranchers do not know from one year to the next if their businesses will earn a profit, break even, or operate in the red. Few other industries must face such a challenge year after year after year.

What all farmers hope for is that the good years will outnumber the bad ones. Believing that better times are coming, farmers and ranchers get through tough times by spending their retirement savings, borrowing money, refinancing debt, putting off capital improvements and lowering their standard of living. All of these activities damage the financial health of a farm or ranch and the well being of the family operating the business.

The 1996 farm bill phased out government price and income supports to farmers through the year 2002. Farmers and ranchers supported this phase-out because of the promise of expanding market opportunities and assurances by Congress that new ways would be found to help farmers and ranchers manage their financial risks.

Many growers of perishable commodities along with the producers of livestock, poultry and other nonprogram crops have never had the benefits of a farm program safety net. We rely on our management skills, marketing ability and a little luck with the weather to make our businesses turn a profit. We are always looking for new and innovative risk management tools to help us manage our businesses successfully.

FARRM accounts are simple and that’s why they are so appealing to farmers. Under H.R. 957, the Farm and Ranch Risk Management Act, eligible producers could choose to defer taxes on up to 20 percent of their income for up to five years. Farmers would decide when to save rather than spend and when to withdraw and pay taxes on the money. I know that we will use a FARRM account as a risk management tool on our farm when our income allows us to do so.

Farm Bureau asks each of you for your support for FARRM accounts. We urge Congress to pass them into law as soon as possible. Their creation will give farmers and ranchers a meaningful incentive to save for a rainy day and provide a very valuable tool for managing financial risk.

Marlene Brown, District 1 Women’s Chairman

Marlene Brown is a member of the Iowa Farm Bureau Federation state women’s committee. She represents District 1, which consists of 11 counties in northeast Iowa.

Marlene previously served as chairman of the Buchanan County Farm Bureau women and was board president from 1993 to 1996. She is currently a member of the county legislative committee and voting delegate.

She manages a diversified crop and livestock farm with son Scott near Brandon. Marlene has served on the Buchanan County Sesquicentennial committee, the Iowa State University Extension council and past president of the Brandon United
Methodist women. She is an Iowa Master Gardener, currently serves as a United Methodist women district officer and is an active member of the Brandon Area Community Club and the Buchanan County Homeless Council. She also participates in the local farmers market and works part time for Brandon Electric Motor.

The Iowa Farm Bureau Federation participates in the following agreements that have been funded in part by the Iowa Department of Natural Resources through a grant from the U.S. Environmental Protection Agency under the Federal Nonpoint Source Management Program (Section 319 of the Clean Water Act):


2. Agreement Number 98-7147-08 Iowa Farm*A*Syst/Home*A*Syst Program. Funding is for $41,900 for the term of April 20, 1998 to October 31, 1998. Funding for this contract is made available under “Catalog of Federal Domestic Assistance” No. 66.460.

3. Agreement Number 96-7146-01 Iowa Nonpoint Source Pollution Information and Education County Grant Program. Funding is for $52,000 for the term of April 1, 1996 to April 1, 2000. Funding for this contract is made available under “Catalog of Federal Domestic Assistance” No. 66.460.

STATEMENT OF STEVE APPEL, PRESIDENT WASHINGTON STATE FARM BUREAU

My name is Steve Appel. I’ve come to today’s hearing from Dusty, Washington, where my neighbors know me as a third generation farmer who grows wheat and barley.

Thank you for inviting me to speak at today’s Small Business Rural Enterprises Subcommittee hearing. My statement is made on behalf of the 4.8 million member families of the American Farm Bureau Federation. I sit on AFBF’s board of directors, a distinction made possible because of my post as president of the Washington State Farm Bureau.

It’s especially fitting that the Small Business Committee is focusing on agriculture because times are especially hard for many farmers and ranchers. Last year, in some parts of the country, extreme weather or disease destroyed the fall’s harvest or made feed for livestock scarce. Others were blessed with good crops, but faced low prices because of troubled overseas markets. Agricultural forecasters are predicting that 1999 will also be a difficult year for farmers and ranchers.

Farm Bureau is most appreciative of legislation passed by Congress last year to provide immediate relief to farmers and ranchers. If similar emergencies are to be minimized in the future, farmers and ranchers must have new and innovative ways to deal with uncertain incomes caused by weather and markets. Congress must act to give producers the risk management tools they need to manage financial jeopardy caused by unpredictable weather and markets.

Farm and Ranch Risk Management Accounts (FARRM accounts) are exactly the kind of risk management tool that farmers and ranchers are looking for. Using these accounts, producers will be encouraged to save up to 20 percent of their net farm income in higher income years by the benefit of deferring taxes on the income until the funds are withdrawn. The program is targeted at real farmers, contains guarantees that the funds will not be at risk, and prevents abuse by limiting how long savings could be in an account to five years. I can’t help thinking how different things would be now if FARRM accounts had been put on the books five years ago, and farmers and ranchers had FARRM savings to use this year.

Legislation to create FARRM accounts, H.R. 957, has been introduced by Reps. Kenny Hulshof and Karen Thurman. These are two smart representatives because they’ve written their bill so that producers of all commodities, from all sizes of operations, who come from all parts of the country, can take advantage of FARRM accounts. That’s the reason over 30 agricultural organizations and more than 125 representative support the bill. A list of agricultural groups who join Farm Bureau in supporting FARRM accounts is attached.

We know that members of the Small Business Committee understand the need for FARRM accounts, but must tell you that many of my fellow farmers wonder why it’s taking Congress so long to pass them into law. When agriculture agreed to support the phase-out of farm programs in 1996, it was with the full expectation that Congress would make good on its promises to reduce regulations, expand markets and provide risk management tools. We’re still waiting for some of the freedom that was to come with “Freedom to Farm.”

I’ve been told that passage of H.R. 957 would “cost” $500 million over five years and $900 million over 10 years. Rather than talking about cost, I think we should
all be talking about the benefits of the legislation. It would be better to say that FARRM accounts will provide an important safety net for farmers and ranchers worth just short of a billion dollars.

My position as president of the Washington State Farm Bureau gives me responsibility for the grassroots process that our organization uses to develop its policy positions. I listen to hours of debate on farm policy in Washington State and I can't think of another idea that has such enthusiastic support as Farm and Ranch Risk Management Accounts. Farmers like the idea that the government wants to make it easier for them to save for a "rainy day."

I ask each and every member of the Small business Committee to get behind FARRM accounts. Please cosponsor H.R. 957 if you haven't already. Speak to your fellow representatives about the wisdom of doing something to improve the farm economy long-term. The future of production agriculture is dependent on new and innovative tools, like FARRM accounts, to help farmers and ranchers manage their financial risks.

Thank you. I'll be glad to take your questions.

ORGANIZATIONS SUPPORTING FARM AND RANCH RISK MANAGEMENT ACT (FARRM ACCOUNTS) IN THE 106TH CONGRESS

Agricultural Retailers Association; Alabama Farmers Federation; American Cotton Shippers Association; American Crop Protection Association; American Farm Bureau Federation; American Mushroom Institute; American Nursery and Landscape Association; American Sheep Industry Association; American Society of Farm Managers & Rural Appraisers; American Soybean Association; American Sugarbeet Growers Association; Black Farmers and Agriculturists Association; Communicating for Agriculture; Farm Credit Council; The Fertilizer Institute; National Association of Wheat Growers; National Barley Growers Association; National Cattlemen's Beef Association; National Corn Growers Association; National Cotton Council of America; National Council of Farmer Cooperatives; National Grain Sorghum Producers; National Grange; National Milk Producers Federation; National Pork Producers Council; National Sunflower Association; North American Export Grain Association; North Carolina Peanut Growers; Peanut Growers Cooperative Marketing Association; Society of American Florists; Southeast Dairy Farmers Association; Southern Peanut Farmers Federation; USA Rice Federation; U.S. Canola Association; U.S. Rice Producers Association; United Egg Producers; United Fresh Fruit and Vegetable Association; Virginia Peanut Growers Association.

BIOGRAPHY OF STEVEN APPEL, PRESIDENT WASHINGTON FARM BUREAU

Steve Appel is a family farmer from Whitman County, in southeast Washington. He owns and operates a wheat and barley farm near Dusty.

Next to his family, Steve loves farming and the Farm Bureau. And like most farmers today, he realizes that if you want to farm, you have to invest time to protect the family farm from being plundered by a not so benevolent government. That is why he is here today.

Steve has been active in the Farm Bureau since 1974, serving as chair of the Whitman County Young Farmers and Ranchers Committee and later as President of the Whitman County Farm Bureau for three terms.

Mr. Appel was elected to the Washington Farm Bureau board in 1987—served as First and Second Vice Presidents—and in 1994, was elected President—a position he holds today.

He was elected to the American Farm Bureau board of Directors last month and sits on the Farm Bureau national bank board of directors.

For those of you who don't know, the Washington Farm Bureau represents family farmers and presently has more than 18,000 member families.

NOTE: Pursuant to Rule XI(2)(g)(4) of the U.S. House of Representatives in the 105th Congress, neither the American Farm Bureau Federation, the Washington State Farm Bureau, nor Steve Appel receive any federal grants or contracts.

STATEMENT OF THE NATIONAL CATTLEMEN'S BEEF ASSOCIATION

Chairman LoBiondo, Members of the Committee: The National Cattlemen's Beef Association commends you and the Committee for all of its hard work to protect the interests of America's small businesses. We are particularly grateful to you and your staff for the effort expended to call today's hearing on H.R. 957, "The Farm and Ranch Risk Management Act," (FARRM) introduced by Representatives Hulshof and Thurman, and cosponsored by you and several members of the Full Committee.
The business management tools provided for in this legislation will go a long way today helping beef producers better manage the cyclical nature of farm and ranch income, and is strongly supported by NCBA. Annual variations in income are a major problem for farmers and ranchers. Unpredictable weather and markets make long-term financial and tax management planning difficult and often threaten the continuation of a ranching or beef feeding operation. In addition, recent changes in federal farm policy are requiring agricultural producers to be more attentive to market conditions across all commodity sectors. Add to that the current economic instability in many of our key export markets and the combined effect results in an increasingly volatile income outlook for ranchers and feeders.

Without the ability to even out the swings in income, farmers and ranchers end up paying more taxes than individuals with stable incomes because peaks are taxed at a higher rate than if the same income were evened out over several years. This problem has been accentuated since the income tax brackets were widened over a decade ago. Income averaging and carry back tax provisions certainly help, and we appreciate the efforts in the last Congress to improve those tools.

However, the FARRM legislation provides an additional tool that cattlemen and women believe would significantly improve their ability to manage income—it would allow them to establish an easily accessible tax-deferred “rainy day” fund that would provide a safeguard for revenue shortfalls in the tough years. NCBA joins the commodity and farm groups testifying today in endorsing FARRM, in thanking you for your leadership on this legislation, and in looking forward to working with you to provide this tool to America’s beef producers.