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YOUNG FARMERS HOMESTEAD ACT

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE AND FORESTRY UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

S. 2589

A BILL TO FOSTER AND CONTINUE THE FAMILY FARM IN
THE UNITED STATES BY PROVIDING YOUNG FARMERS
WITH THE NECESSARY ASSISTANCE TO PURCHASE
FAMILY FARM UNITS, AND FOR OTHER PURPOSES

JUNE 10 AND 11, 1976

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YOUNG FARMERS HOMESTEAD ACT

THURSDAY, JUNE 10, 1976

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The subcommittee met at 10:05 a.m., in room 324, Russell Senate Office Building, Hon. George McGovern (chairman of the subcommittee) presiding.

Present: Senators McGovern and Dole.

Also present: Senator Clark.

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

Senator McGovern. The subcommittee will be in order.

We have unanimous consent for the committee to meet until 12 o'clock under the rules now in operation in the Senate during the debate on the antitrust bill. Committees are not permitted to meet during this period except by unanimous consent, but the majority leader has secured that consent which terminates on or before 12 o'clock today. If the same rules exist tomorrow we will try to obtain a unanimous consent request again so that the hearings can be continued between 10 and 12 tomorrow, but I do want to say in all fairness to the witnesses that a single Senator can block these hearings under the rules.

I am just explaining, Senator Clark, that we did get unanimous consent for this subcommittee to meet and I want to express my appreciation to the majority leader for making an exception in the case of this subcommittee. There were some seven or eight committees scheduled to meet today and so far as I know this is the only one that has been authorized to meet.

Senator Mansfield is a leading cosponsor of this measure. It does have bipartisan support.

I would like to open with a very brief statement and then call on Senator Clark for any remarks that he would care to make.

During the entire period of my own public career, I cannot recall any issue that farmers, especially young farmers, have discussed with me in any more urgent terms than the problem of how to get started in agriculture, how to finance a farm operation, how to pay for the initial cost of the land, the equipment, the machinery, the seed, and all the things that go in starting up a modern farm operation. As those costs have escalated and the amount of good land has remained relatively constant, it has become an increasingly difficult problem.

I heard about a proposal that was in operation in Saskatchewan some time ago and went up there as the chairman of this subcommittee to take a look at their program and out of that trip came some ideas that led to the drafting of the legislation that we call the Young Farmers Homestead Act. It is an innovative idea. It avoids what I think are some of the political traps in the Saskatchewan plan that would not work very well here in the United States, but yet recognizes the essential idea that we have to find new and imaginative ways to enable farmers to get started in agriculture, ways that will go beyond what we can do with traditional credit arrangements.

I think the various farm credit groups have done a good job within the limits of their authority, but I would hope that out of this hearing would come some innovative and creative thinking about how we can deal with this very urgent question of making it possible for young people in the 1970's and beyond to choose agriculture as a life, if that is what they wish to do. That is the purpose of these hearings today.

I am going to, in the interest of time and because of the deadline under which we are operating, insert my statement together with some supporting documents.*

At this point I will insert a copy of S. 2589 and a report from the Department of Agriculture regarding S. 2589.

[The bill and report follows:]

[S. 2589, 94th Cong., 1st sess.]

A BILL To foster and continue the family farm in the United States by providing young farmers with the necessary assistance to purchase family farm units, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Young Farmers' Homestead Act of 1975".

FINDINGS AND PURPOSE

SEC. 2. (a) The Congress finds that the escalating cost of land, farm equipment and supplies, and operating capital has made it virtually impossible in most cases for young people to enter into farming as a career; that neither the Government nor the private sector is able to meet the financial requirements necessary to permit young people of ordinary means to engage in farming on a career basis; and that it is essential for the Federal Government to provide a new program of assistance if the family farm system is to be perpetuated in the United States.

(b) It is therefore the purpose of this Act to provide the assistance necessary to permit and encourage young people to engage in farming as a career.

ESTABLISHMENT OF FEDERAL FARM ASSISTANCE CORPORATION

SEC. 3. In order to carry out the purposes of this Act, there is established as an agency within the Department of Agriculture a body corporate to be known as the Federal Farm Assistance Corporation (hereinafter called the Corporation). The principal office of the Corporation shall be located in the District of Columbia, but there may be branch offices elsewhere in the United States as authorized in this Act.

MANAGEMENT OF CORPORATION

SEC. 4. (a) The management of the Corporation shall be vested in a Board of Directors (hereinafter called the Board). The Board shall be composed of five members who subscribe to the objectives of the Act, appointed by the President by and with the advice and consent of the Senate. No more than three members of the Board shall be members of one political party.

*See p. 65 for the prepared statement of Senator McGovern, with attachments.

(b) The term of office of members of the Corporation shall be four years, except that (1) any member appointed to fill a vacancy occurring prior to the expiration of the term for which his predecessor was appointed shall be appointed for the remainder of such term, and (2) the terms of office of members first taking office shall expire, as designated by the President at the time of appointment, one at the end of two years, two at the end of three years, and two at the end of four years.

(c) Vacancies in the Board so long as there are three members in office shall not impair the powers of the Board to execute the functions of the Corporation, and three members of the Board shall constitute a quorum for the transaction of the business of the Board.

(d) With the exception of the Administrator of the Farmers Home Administration, no officer or employee of the United States shall be eligible for appointment as a member of the Board. Members of the Board shall be paid such compensation for their services as directors as the Secretary of Agriculture shall determine, but such compensation shall not exceed \$150 per day each year when actually engaged in the business of the Board plus travel expenses, including per diem in lieu of subsistence, as authorized by section 5703 of title 5, United States Code, for persons in the Government employed intermittently.

(e) There shall be a manager of the Corporation who shall be its chief executive officer, with such power and authority as may be conferred upon him by the Board. The manager shall be appointed by, and hold office at the pleasure of, the Board, and shall be compensated annually at rates equal to those paid assistant secretaries.

GENERAL POWERS

SEC. 5. The Corporation—

- (1) shall have succession in its corporate name;
- (2) may adopt, alter, and use a corporate seal, which shall be judicially noticed;
- (3) may sue and be sued in its corporate name in any court of record of a State having general jurisdiction, or in any United States district court, and jurisdiction is hereby conferred upon such district court to determine such controversies without regard to the amount in controversy, but no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Corporation or its property;
- (4) may adopt, amend, and repeal bylaws, rules, and regulations governing the manner in which its business may be conducted and the powers granted to it by law may be exercised and enjoyed;
- (5) shall be entitled to the free use of the United States mails in the same manner as the other executive agencies of the Government;
- (6) with the consent of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, facilities, officials, and employees thereof, in carrying out the provisions of this Act;
- (7) shall determine the character of and the necessity for its obligations and expenditures under this Act and the manner in which they shall be incurred, allowed, and paid;
- (8) shall have authority to make final and conclusive settlement and adjustment of any claims by or against the Corporation or the accounts of its fiscal officers;
- (9) may, without regard to any other provision of law, negotiate for, purchase, and sell real property as authorized by this Act; and
- (10) shall have such powers as may be necessary or appropriate for the exercise of the powers herein specifically conferred upon the Corporation and all such incidental powers as are customary in corporations generally.

PERSONNEL

SEC. 6. (a) The Board shall appoint such officers and employees as may be necessary for the transaction of the business of the Corporation in accordance with the provisions of title 5, United States Code, define their authority and duties, and delegate to them such of the powers vested in the Corporation as it may determine.

(b) In carrying out the provisions of this Act, the Secretary of Agriculture and the Board shall utilize to the maximum extent practicable, the personnel,

services, and facilities of the Farmers Home Administration, the Agricultural Conservation and Stabilization Service, the Soil Conservation Service, and the Federal Crop Insurance Corporation of the Department of Agriculture, but may, whenever essential to the efficient operation of the program provided for in this Act, establish one or more branch offices throughout the United States.

LAND PURCHASE AND LEASE PROGRAM

SEC. 7. (a) The Corporation is authorized to negotiate for and purchase farm-land or units which may come on the market from time to time. In no case may the Corporation purchase any farm unit (meaning land and buildings) which cost in excess of \$200,000: *Provided*, That the Corporation may purchase farms or ranches of any size for subdivision into units of no more than \$200,000 in value.

(b) Any farm unit acquired by the Corporation shall be made available for lease, and subsequently for sale, as herein provided.

(c) A farm unit may be leased to an eligible applicant for a period of not less than two nor more than seven years.

(d) The amount of rent charged for the rental of any farm unit shall be determined by the Corporation so as to cover the cost of all real estate or other taxes levied against such farm unit during the term of the lease by Federal or State taxing authorities plus an amount sufficient to reimburse the Corporation (on a pro rata basis) for debt service expenses incurred in acquiring such farm unit and shall be charged and collected on an annual basis as determined by the Corporation. Authority is granted to the Corporation to adopt variable rental schemes to take into account both bountiful and natural disaster conditions.

(e) During the term of the lease the lessee may be permitted to make real estate improvements on the farm within a five-acre area designated by the Board. Such improvements may be made in accordance with such regulations as the Board shall prescribe and may be financed through private commercial sources, through other Federal programs, or by the Corporation and shall be deemed to be the property of the lessee in any dispute between the Corporation and the lessee.

(f) The lessee of a farm unit may not sublease the farm unit except in extraordinary cases approved by the Board.

(g) The Corporation may terminate the lease of a farm unit for any substantial violation of the lease agreement, including, but not limited to, a failure to pay the rent or other charges required under the lease agreement. The procedures for terminating a lease shall be prescribed in regulations issued by the Board.

(h) One of the terms of the lease agreement shall provide that the Corporation shall have a lien on all unharvested crops on the farm unit for all moneys owed the Corporation by the lessee.

(i) A lease initially entered into for a period of less than seven years may be extended by the lessee with the consent of the Board so long as the total term of the lease does not exceed seven years.

SALE OF FARM UNITS

SEC. 8. (a) The lessee of a farm unit may, at any time within six months prior to the expiration of his lease, make application to the Board for the purchase of such unit upon the expiration of such lease.

(b) The Board shall approve such application for purchase if it determines, on the basis of the lessee's operation of the farm unit during the period of the lease and on the basis of such other factors as the Board shall prescribe by regulation, that the lessee can successfully manage and operate such farm unit.

(c) The selling price of a farm unit owned by the Corporation shall be determined at 75 per centum of the appraised fair market value at the time of sale or the purchase cost to the Corporation whichever is larger. In addition, capital gains realized in the five years subsequent to sale shall be vested at the rate of 20 per centum per year to the purchaser.

(d) A lessee may obtain financing through any available source, but in the event that private financing is not available, then and in that event the Farmers Home Administration shall furnish the financing. In the event the Farmers Home Administration furnishes the financing, such amounts shall not count against the appropriation authorities of the Farmers Home Administration.

(e) The rate of interest on any loan made by the Farmers Home Administration of a farm unit shall be an amount equal to the rate on all interest bearing obligations of the United States forming a part of the public debt as computed at the end of the fiscal year next preceding the date of the loan, adjusted to the nearest one-eighth of 1 per centum, plus one-half of 1 per centum.

BORROWING AUTHORITY OF CORPORATION

SEC. 9. (a) The Corporation is authorized to obtain funds through the public or private sale of its bonds, debentures, notes, and other evidences of indebtedness (herein collectively called Corporation debentures).

(b) Corporation debentures shall be issued at such times, bear interest at such rates, and contain such other terms and conditions as the Board shall determine, except that the amount of Corporation debentures which may be outstanding at any one time under this section may not exceed \$1,000,000,000 during the first year following the date of enactment of this Act or exceed \$2,000,000,000 at any time thereafter.

(c) Corporation debentures shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority and control of the United States or any officer or officers thereof.

(d) The Corporation is also authorized to issue Corporation debentures to the Secretary of the Treasury, and the Secretary of the Treasury shall purchase such debentures, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act as now or hereafter in force are extended to include such purchases. Each purchase of Corporation debentures by the Secretary of the Treasury under this section shall be upon such terms and conditions as to yield a return at a rate not less than a rate determined by the Secretary of the Treasury, taking into consideration the current average yield on outstanding marketable obligations of the United States of comparable maturity. The Secretary of the Treasury may sell, upon such terms and conditions and at such prices as he shall determine, any of the Corporation debentures acquired by him under this subsection. All purchases and sales by the Secretary of the Treasury of such debentures under this section shall be treated as public debt transactions of the United States.

DEPOSIT OF FUNDS

SEC. 10. All money of the Corporation not otherwise employed may be deposited with the Treasurer of the United States, or in any bank approved by the Secretary of the Treasury, subject to withdrawal by the Corporation at any time, or with the approval of the Secretary of the Treasury may be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Subject to the approval of the Secretary of the Treasury, the Federal Reserve banks are hereby authorized and directed to act as depositories, custodians, and fiscal agents for the Corporation in the performance of its powers conferred by this Act.

TAX EXEMPT STATUS

SEC. 11. (a) Except as provided in subsection (b), the Corporation, its capital, reserves, and surplus, and its income and property, shall be exempt from all taxation now or hereafter imposed by the United States or by any territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

(b) Farm units acquired by the Corporation shall not be exempt from any tax referred to in subsection (a) of this section.

ACCOUNTING BY CORPORATION

SEC. 12. The Corporation shall at all times maintain complete and accurate books of account and shall file annually with the Secretary of Agriculture a complete report as to the business of the Corporation. The financial transactions of the Corporation shall be audited at least once each year by the General Accounting Office for the sole purpose of making a report to Congress, together

with such recommendations as the Comptroller General of the United States may deem advisable. Such report shall not be made until the Corporation shall have had reasonable opportunity to examine the exceptions and criticisms of the Comptroller General to point out errors therein, explain or answer the same, and to file a statement which shall be submitted by the Comptroller General with his report.

ADVISORY COUNCIL

SEC. 13. (a) The Secretary of Agriculture shall appoint an advisory council to advise the Board regarding the administration of this Act.

(b) In order to obtain an advisory council with as broad a national perspective as practicable, the Secretary of Agriculture shall divide the United States into not less than ten geographic regions and appoint two individuals to the council from each such region of which one shall be engaged in farming as a full-time occupation and the other to be one who has an interest in rural America.

(c) Individuals appointed to the advisory council shall serve for such period and for such compensation and expenses which shall be reasonable as may be prescribed in regulations issued by the Secretary and shall meet upon the call of the Board but not fewer than four regularly scheduled meetings each calendar year two of which are to be held in the city of Washington, District of Columbia.

(d) In carrying out its functions under this section the functions of the advisory council shall include, but shall not be limited to—

(1) advising the Board on what the eligibility qualifications should be for leasing farm units under this Act, including maximum net income and net worth;

(2) recommending the methods for determining the net income and net worth of lease applicants under this Act;

(3) advising the Board regarding the farm or ranch training or experience that should be required for leasing a farm unit under this Act; and

(4) advising the Board regarding the terms and conditions that should be included in leasing agreements entered into under this Act.

ANNUAL REPORTS

SEC. 14. The Board shall submit an annual report to the Committee on Agriculture and Forestry of the Senate and the Committee on Agriculture of the House of Representatives on or before February 1 of each year on the operations of the Corporation during the past fiscal year. The Board shall include in such report a statement of policy regarding the operation of the Corporation in the next fiscal year. The statement of policy shall become effective thirty days after the submission thereof to such committees and publication in the Federal Register unless within such thirty-day period one or both of such committees adopt a resolution disapproving such statement of policy.

RIGHT TO AMEND

SEC. 15. The right to alter, amend, or repeal this Act is hereby reserved.

APPROPRIATIONS

SEC. 16. There are authorized to be appropriated such sums, not in excess of \$ _____, for each fiscal year beginning on or after October 1, 1976, as may be necessary to cover the operating and administrative costs of the Corporation, which shall be allotted to the Corporation in such amounts and at such time or times as the Secretary of Agriculture may determine.

CRIMINAL PROVISIONS APPLICABLE TO FEDERAL FARM ASSISTANCE CORPORATION

SEC. 17. Sections 657, 658, 1006, and 1014 of title 18, United States Code, are each amended by inserting "Federal Farm Assistance Corporation," immediately after "Federal Crop Insurance Act," each time the latter term appears in each such section.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., June 10, 1976.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture and Forestry,
Washington, D.C.

DEAR MR. CHAIRMAN: This is in reply to your request for a report from this Department on S. 2589, a bill "To foster and continue the family farm in the United States by providing young farmers with the necessary assistance to purchase family farm units, and for other purposes." The bill would be cited as the "Young Farmers Homestead Act of 1975".

The Department opposes enactment of S. 2589. We are deeply concerned that adequate encouragement and financing for young farmers and their families be available. Nevertheless, the provisions of this bill appear unacceptable for the following reasons:

The bill would establish an Agency within the Department of Agriculture to be known as the Federal Farm Assistance Corporation. The Corporation would be authorized to purchase individual farm units at a price not to exceed \$200,000 and to purchase farms or ranches of any size for subdivision into units of not more than \$200,000 in value. These farm units would be made available for lease and sale to the lessee. The bill would place the Government in the land ownership and land leasing business in direct competition with farmers and other rural investors. It could eventually make the Government the largest absentee landlord in the country, and would encourage Government ownership of farms rather than family ownership. Moreover, in order to obtain farmland, the proposed new Agency would consistently have to outbid private buyers. Aside from the adverse reaction this would cause among farmers seeing their own tax dollars used to block them from purchasing or expanding their own farms, in areas where several units might be purchased.

The bill places on the Board of Directors of the Corporation the responsibility of defining a young farmer. Whatever the definition, it might constitute an unwarranted discrimination against persons over the maximum age limit and especially those just over the age limit. The title and section 2 of the bill mention assistance to the young farmer as the bill's purpose. However, the bill provides no guidelines for determining the eligibility of applicants for such assistance. The bill does not specifically state that it is to be applied only to "young" farmers. It appears that farmers of all age groups could receive assistance under its provisions with perhaps "young" farmers receiving preference when applying.

FmHA under its present authorities can make loans to farmers of all ages for family-size operations. A majority of these loans are made to young farmers. The average FmHA farm ownership loan borrower over the last two fiscal years was 35 years of age. Although FmHA does not have a lease-purchase authority, it can make farm ownership loans and defer payments for the first two full crop years where income is limited for that period.

Section 7(d) of the bill provides that the rental charges shall be determined by the Corporation so as to cover the cost of the real estate and other taxes and debt service expenses incurred by the Corporation in acquiring the farm unit. Such rental charges under these conditions could be less than the customary rental fees on other tenant-operated farms in the community and result in preferential treatment to the lessees of farm units owned by the Corporation. Such inequitable rental arrangements could subject the Government to adverse criticism from both farm owners and other tenant farmers in the community.

Section 7(e) of the bill would allow financing of real estate improvements on the leasehold by Federal agencies, for example, but does not state what type of lien, if any, a lender could take on the lessee's property to finance such improvements. FmHA probably is one of the Federal agencies the bill is meant to refer to. Unless the Corporation's regulations with regard to liens are consistent with the security requirements of FmHA, FmHA may be precluded from making loans for these purposes.

Section 7(h) of the bill gives the Corporation a lien on all of a lessee's unharvested crops, thus effectively barring the lessee from receiving any FmHA farm operating loans or loans from other sources, for that matter, with regard to his crops. That section could be read to preclude any liens other than the Corpora-

tion's from attaching to the crops. Therefore, FmHA could not make an operating loan to the lessee under its existing regulations unless the regulations were changed to provide for unsecured loans. Certainly other lenders would have similar problems in financing such loans. Such an arrangement would create problems if liquidation of an operating loan become necessary. Even if the language were interpreted to allow junior liens to be taken on the crops, this creates problems for the lessee in obtaining financing—not only from FmHA but also from other lenders—because section 7(e) grants the Corporation the authority to finance real estate improvements on the land and thus expands the landlord-tenant relationship. The Corporation's lien, therefore, would be much broader than one just for the current year's rent, thus possibly making the prospect of financing a lessee less attractive to other lenders. For the foregoing reasons, this provision would likely discourage a transition from Government assisted to private financing.

Section 8(c) of the bill provides that the selling price of a farm unit will be 75 percent of the appraised fair market value at the time of the sale or the purchase price to the Corporation, whichever is larger. The land will likely appreciate in value and, under such sale terms, could result in an equity grant of up to 25 percent of the value of the farm. This raises serious equity questions vis-a-vis other farmers who do not receive such benefits.

Section 8(d) of the bill provides that a lessee may obtain financing through any available source. Conceivably, this would include FmHA financing. The section then mandates FmHA financing if private financing is not available, but the concept of private financing is not defined. The FmHA loans under this program would be in addition to regular FmHA funding authorities.

The apparent mandatory language in section 8(d) could be read to require FmHA to provide financing even though the applicant was not eligible for assistance under the Consolidated Farm and Rural Development Act and FmHA's regulations. This subsection can be read to imply that an entirely new loan program would be established within FmHA. If a new loan program were established by a statute which did not amend the Consolidated Farm and Rural Development Act, the Agricultural Credit Insurance Fund would be unavailable as a source of loan funds for that program unless specific statutory authorization were given for such use. The bill gives no such authorization.

The provisions of section 8(e) of the bill would result in a different rate of interest being charged to lessees by FmHA than is charged to other applicants under its individual loan programs to which section 307(a) of the Consolidated Farm and Rural Development Act applies. This would result in FmHA having to operate some of its loan programs under two different interest rates depending on the applicant involved.

The creation of a new agency within the Department would result in additional bureaucracy and higher Federal outlays. It (section 6(b)) would also place an additional workload on the Farmers Home Administration, Soil Conservation Service, Agricultural Stabilization and Conservation Service, and the Federal Crop Insurance Corporation. Although it is difficult to estimate with any precision the cost of this program, the principal elements would be the cost of administration, which could be extensive if field offices are established, and the cost of land purchased but not yet leased. These items would add substantially to the Federal budget in terms of both outlays and man-years.

We suggest that the bill be sent to the Internal Revenue Service for comments because section 8(c) may effect a change in the statutes and/or regulations concerning the tax on capital gains.

The Office of Management and Budget advises that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,

JOHN A. KNEBEL,
Under Secretary.

Senator McGOVERN. I would now like to give Senator Clark a chance to testify in any way he sees fit.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Senator CLARK. Thank you very much, Mr. Chairman.

I would like to read a part of my statement and put the rest of it in as if given.

I want particularly to congratulate you on going ahead with these hearings and the leadership which you have displayed in creating a national dialog on new ways to deal with the ever-increasing needs of young farmers and particularly the innovative legislation that you have introduced. I think it now has something like 17 cosponsors and I think that indicates the high level of concern in Congress to support a very far-reaching search for answers to this difficult question, and I think it is going to take innovative answers.

I do not think it is just a question of continuing with the programs that we presently have. As you say, these programs have done very well, but they have limited purposes. So, if we are going to encourage the young to preserve the family farm, we are going to have to take steps to offset that trend.

The average age of a U.S. farmer is now 50.3 years—in other words, 50 years old—at the same time, land costs are increasing at alarming rates.

I know just in my own home State of Iowa between March of 1975 and March of this year, 1976, 12 months, Iowa will average an increase of 26 percent. It went up by more than a fourth in 1 year. This is typical of what happened in the last several years. This year, for example, the cost of production for corn farmers is estimated to have increased by 9 percent.

So, many young farmers in Iowa tell me at least, and I think Iowa is not different from South Dakota or the rest of the country in this regard—I picked Iowa simply because it is my home State—many of them say to get a farm you either inherit it or you marry it. That is the only way you can get it.

Senator MCGOVERN. Even that is getting hard to do under the tax laws.

Senator CLARK. That is right.

So, increasing numbers of farmers say that with the startup cost on land and machinery and livestock you can run as high as a quarter million dollars in a typical Iowa farm to get started.

With increasing frequency we hear it said that the historical sources of credit, and I think this is really what the chairman said as well, the historical sources of credit do not meet the needs of the persons who are really trained and suited to go into farming. These young men and women lack any way to provide the security conventional banking institutions and the Government programs must, by law, require of them.

So, it seems to me that the Nation has a choice. We can permit our agriculture to be held increasingly by corporations and absentee landlords or we will have to design programs through which the Government can underwrite the initial, highest risk period for the young farmers. I believe that the family farm, after all, for all the reasons that we have discussed in this committee many, many times, is worth saving.

Mr. Chairman, I particularly applaud your foresight in introducing the Young Farmers Homestead Act. I understand that your purpose is not to field legislation that is set in stone or which would not allow for change or amendment, and that is what this meeting is all about, to try to get judgments on those areas that could be strengthened or those areas that perhaps should be dropped. I know myself

I have some questions about the legislation, even though I am a co-sponsor, in terms of what it might do to land costs in terms of other areas.

So, I look forward to, as you do, getting the testimony, to measuring the strengths and weaknesses of this legislation and to finding any way that it might be improved if people have ideas before we mark it up and proceed with it.

I thank you for the chance to testify.

Senator McGOVERN. Well, thank you, Senator Clark.

Your point is certainly well taken that no one supposes, least of all myself, that this legislation in its present form is going to go through as it is. It does not define as closely as we will need to some of the parameters under which land could be acquired by the Government. It does not really spell out the guidelines and rules under which that land would become available and to who it will be available. All of those are matters that will have to be refined as the legislation moves through the committee process.

I, too, would have some questions about some aspects of it, but it did seem to me to be a good working proposal.

Senator CLARK. Exactly.

Senator McGOVERN. I think the farm credit experts who are testifying over the next couple of days, as well as farm organization leaders and working farmers themselves, that they will have some questions and suggestions to make that will help us produce a better bill.

But, I see it simply as a working proposal that will enable us to get started.

Your complete statement will be made a part of the record.*

Congressman Melcher of Montana is not here, but I am going to ask that any statement that he wishes to file be made a part of the hearing record.

Senator CLARK. I have to go and preside over the Senate, but I will be back at 11 o'clock.

Senator McGOVERN. I already warned our witnesses and our audience that the Senate is involved in a series of parliamentary maneuvers on the antitrust bill, and we will have interruptions.

So, you will just have to bear with us. We at least have authority to stay here until 12 o'clock.

Thank you, Senator Clark.

Senator CLARK. Thank you.

Senator McGOVERN. Senator Dole has just arrived, and he is the ranking minority member of the committee.

Senator Dole, do you have a statement to make before we hear from Mr. Cardwell?

Senator DOLE. I will have my statement made a part of the record. It is very brief.

I raise some questions in the statement which I will ask as we go along.

Senator McGOVERN. Your statement will be made a part of the record.**

We will now call Mr. C. K. Cardwell, Deputy Governor for Credit Operations, Federal Farm Credit Administration.

*See p. 76 for the prepared statement of Senator Clark.

**See p. 78 for the prepared statement of Senator Dole.

STATEMENT OF C. K. CARDWELL, DEPUTY GOVERNOR FOR CREDIT
AND OPERATIONS, FEDERAL FARM CREDIT ADMINISTRATION

Mr. CARDWELL. Thank you.

Mr. Chairman and Mr. Dole, my name is C. K. Cardwell, I am Deputy Governor of the Farm Credit Administration, which as you know, is an independent Federal agency responsible for the regulation, supervision, and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System. The System provides credit and closely related services to farmers, ranchers, producers, and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses providing farmers with services essential to their onfarm operating needs.

I appreciate the opportunity to appear before this subcommittee and applaud your committee for taking interest in seeking ways to assist young farmers.

The Farm Credit System has a longstanding interest in young farmers and has traditionally served them. As a cooperative lending system, our lending institutions have long recognized that the future of agriculture depends upon the success of young farmers.

Interest in serving young farmers in the Farm Credit System has resulted in the development of specific actions to provide sound credit to finance beginning farmers.

In 1969-70, a Commission on Agricultural Credit—parenthetically, that was comprised of about 30 farm leaders both from within and outside the Farm Credit System—which provided this committee with a complete copy of its report at the time of the development of the Farm Credit Act of 1971, addressed the issue of serving young farmers. This Commission suggested that it should be a goal of the Farm Credit System to “provide greater opportunity for competent young farmers to obtain adequate amounts of credit consistent with sound lending practices while recognizing the well-being of the applicant and reasonable protection for the lender.”

Following the implementation of the Farm Credit Act of 1971, a major understanding by the Farm System, a conference of young farmers was held in February of 1974 in Indianapolis, Ind., to discuss financial obstacles to getting started in farming. This conference provided a helpful insight into the problems young farmers encounter in the early years of farming. A summary report of that conference is attached to this statement for your review.*

In response to the findings of that conference, the Federal Farm Credit Board established a System objective for financing young farmers. This objective urged the district banks and associations to develop specific programs to assist in the financing of young farmers. Amendments to the System's regulations were made to facilitate this objective. Most of the Farm Credit districts now have district policies for financing young farmers, with a varying degree of program implementation in this area.

The Farm Credit System is assisting many young farmers with financing. A review of existing data on farmers currently being served by the System revealed the following observation:

*See p. 84 for the prepared statement of Mr. Cardwell with accompanying conference report.

The most recent agricultural census shows that 12 percent of the farmers were under 35 years of age, whereas within the Farm Credit System, about 25 percent of the borrowers were under 35 years of age.

While 17 percent of all Federal land bank borrowers in 1975 used second mortgage financing about 28 percent of the young farmer group—less than 35 years of age—used second mortgage financing.

About 7 percent of all land bank borrowers had either joint or subordinate loans with the Farmers Home Administration while 15 percent of the young farmers served by the land banks used this method of financing.

We believe our programs of working with Farmers Home Administration are working well and are helping entry farmers. Improvement could be made in the Farmers Home Administration guarantee program to further assist young farmers through the Farm Credit System.

I believe that is currently under review in the Rural Development Act and its implications.

Young farmers were highly leveraged as almost half of the young farmers had debt-to-asset ratios of 50 percent or more whereas only 25 percent of all borrowers had such debt-to-asset ratios.

In spite of high leverage, the percentage of farm income used for annual debt payments of young farmers did not differ significantly from all borrowers.

With regard to the Young Farmers' Homestead Act—S. 2589—we have reviewed this proposal with interest. This program for assisting entry farmers has been reviewed by the Federal Farm Credit Board at its meeting yesterday morning in Spokane, Wash. The Federal Board, as previously stated, is very interested in encouraging the System in working with young farmer and entry farmer programs and is pleased that this committee is considering this problem facing agriculture. We have some concerns, however, about the specific proposal under discussion today and offer the following observations as constructive criticism for the benefit of the committee as it reviews this proposal.

We assume that the committee will develop clearer definitions of a young farmer (age, net worth, net income, or some basis for making that determination). Permissibility of off-farm work or the operation of additional farm units should be discussed to prohibit the degree of speculation that could occur.

Senator McGOVERN. Mr. Cardwell, in that connection, do you think that those guidelines can best be set by legislative action, rather than by a general instruction on the part of the committee in which the actual terms would be worked out by the executive branch?

I think we have a problem here as to whether the specifics can practically be defined by the committee or whether we are not going to have to leave some leeway with the Farmers Home Administration or whichever agency it is that ultimately administers this program.

Mr. CARDWELL. In general principle, I would agree with you that the legislation should not have all of the details. However, I believe it should have some general guidelines for whoever administers the program because we have been involved in it and it is a very difficult area to define the young farmer in terms of age and whether or not you are talking about a young farmer (by age) or a new entry into

agriculture. Also, the new entry farmer might be 50 years of age and the young farmer might be 35 or 25.

So, there are some basic questions that I believe some guidance could be provided for in the legislation without specific details to curtail its effective administration.

Senator McGOVERN. I think that is a legitimate point.

You might have heard me say in my opening statement I did not regard the legislation complete in its present form. I do think it is going to have to be flushed out and you and your colleagues can be very helpful to us in spotlighting some of the deficiencies that the committees need to concentrate on.

Mr. CARDWELL. We will be happy to assist you further as you move along with the legislation.

One concern we had was in the basic assumption of the legislation that there will be continued rapid inflation of land values to provide for the development of an equity base for a young farmer. We are concerned about support of a concept based on inflationary rises in land values and doubt that it is a continuing sound business principle because it provides equal support to either good and poor management.

Starting young farmers in a business based on the assumption that inflation will create their success does not provide a favorable basis upon which to make good financial decisions. We believe such decisions should instead concentrate on selection of young people with high potential.

Currently, farmers are finding it increasingly difficult to make needed land purchases for expansion of farm units to assure viable enterprises. This program could have the effect of creating the entry of an additional market force which would intensify this problem by providing excessive competition for a fixed resource with the resultant price escalation effects.

Now, that will all depend upon the amount of money involved and the kind of activity that is created. But, it concerns us a little bit that this could happen.

The financing of young farmers requires a large outlay of funds for operating as well as capital needs for farm units. We are concerned that this proposal may not adequately address the young farmer's short and intermediate term capital needs upon entering agriculture. In this bill, the placement of a lien on crops by the corporation would deter lenders, other than the Farmers Home Administration, from loaning operating money; thus discouraging a gradual transition to conventional financing.

This is simply a matter of the details of how the lands are taken and to what extent in connection with this program and the opportunity for additional operating financing based on equipment.

Senator McGOVERN. But, Mr. Cardwell, to whatever extent this program relieves the farmer of the payment, the so-called downpayment, and relieves him of payments on the principal for the first 5 to 7 years, does that not in itself actually relieve somewhat the pressure in terms of getting capital for equipment and operating expenses?

At least he is free of some of these other costs that would otherwise hit a new person starting in agriculture.

Mr. CARDWELL. On the repayment side, you are absolutely right. It is a matter of lien position and whether there is available collateral.

For example, the bill anticipates that the crops would be on the land in connection with the program. That is one of the normal basics for operating capital credit extension.

We are merely suggesting that if you could design the bill so that the lien is related only to the real estate, it would leave the other stages of the operation free for operating credit needs.

Without major controls on eligibility and resale, the purchase of the land by the Government may provide a special opportunity for speculators to gain through this program.

We are merely suggesting guidelines as to who could borrow and how they could dispose of it, et cetera, in connection with the program.

We recognize that farming requires large amounts of capital plus major management skills and capabilities and land ownership is only one method of entry into agriculture.

We urge the committee to make a full review of this proposal and hope additional programs can be developed to assist aspiring young people seeking to enter agriculture as a career.

Thank you, sir, for the opportunity of filing a statement and if you do have further questions, I would be happy to respond or as you need further assistance we will be happy to be of assistance to you.

Senator McGOVERN. Well, let me just put out one question here. I am going to have to run and answer that rollcall. We were hoping Senator Dole would be back to take my place. I think we might have time for one question.

You refer to the impact of this program in further inflating land values, and then I think you make the point that you cannot be sure that land values would be maintained over the proposed lease to provide the Agency enough return from the sale of its land to come out even. Are not those essentially contradictory positions?

In other words, if the impact of this program is to drive up land values, does that not at least insure you ought to get your money back 7 years later?

[Senator Dole presiding.]

Mr. CARDWELL. The matter of the inflation, overall I think it is a safe assumption if the general trend of business in the United States and inflationary pressures are there that land prices in general will rise.

But, the other point relative to dependence on inflation to build an equity base has to do more with individual circumstances than with the general land price rise and in spite of the overall continuing rise in land prices I have observed over the last 10 or 15 years circumstances where depressed situations in a given agriculture area have caused substantial drops in land value for periods of time, and it took several years for recovery.

So, it has more to do with the individual situation in that case than the overall.

Senator DOLE. As you might guess, we are having a lot of roll calls. I answered the first round and Senator McGovern is answering now.

I did not finish your statement before I left.

Mr. CARDWELL. We encourage the committee and have applauded them for consideration of it and have simply pointed out some constructive criticism of the legislation that might be helpful in the consideration of the committee as they proceed.

Senator DOLE. Now, does that mean you are for the bill?

Mr. CARDWELL. Well, we are not taking a solid position pro or con in relation to the legislation as it now stands. We will simply observe that young farmers do need assistance. We will make some constructive criticisms to be helpful to you in further consideration of the legislation.

Senator DOLE. I have a similar view, except I do not think it is good legislation. It seems to me the concept is totally wrong.

Does the Farm Credit Administration have any special programs or do they give any special considerations to young farmers at the present time?

Mr. CARDWELL. Yes; we do.

We have some specific policies in many of the associations across the country.

Senator DOLE. Name one.

Mr. CARDWELL. There are those associations with policies on high-leverage financing in young farmers' situations thus exposing a given amount of the association's assets to high risk. They may do a highly selective job of screening young farmers with the potential they believe to succeed in agriculture and tailor special financing for them.

Senator DOLE. Is that by statute?

Mr. CARDWELL. No.

Senator DOLE. Is there reference to special programs for young farmers in your statement?

Mr. CARDWELL. Yes.

Senator DOLE. Is the primary problem one of land acquisition or operating costs for young farmers?

Mr. CARDWELL. I would say that one of the most significant problems we see in agriculture is the lack of viable size for existing farmers who are trying to expand already. This is a significant problem. Of course, the land costs gets into that one. It is difficult to acquire.

But, the major continuing problem we see is the inadequacy in general of the margins of income to satisfy all of the demands on that income and we believe basically that if the income margins are right to cover the cost of farming that there will be adequate people there to farm. We think that is the underlying problem in the long run: High interest costs, high operating costs.

Senator DOLE. Is the Government going to be able to acquire much land if they cannot purchase it in excess of current appraisals?

Are they going to be able to buy any land for that?

Mr. CARDWELL. It will be rather difficult.

There is only approximately 2 percent of the deeded land in the United States that changes hands each year, but there are more people in the market than the 2 percent that sell.

Senator DOLE. So, if you get the Federal Government into the market, you are going to have what?

Mr. CARDWELL. Some additional pressure. We have noted that in the statement.

Senator DOLE. I do not have any further questions.

Maybe we could go on to the next witness and when Senator McGovern returns, will you be here?

Mr. CARDWELL. I will be here and I promise the Senator that our staff will be available here for additional work and helpfulness in this bill as you proceed.

Senator DOLE. Fine.

Mr. CARDWELL. Thank you, sir.

Senator DOLE. Our next witness is Ben Radcliffe, chairman of the executive committee, National Farmers Union, and president, South Dakota Farmers Union.

Is there anyone else you want with you, Mr. Radcliffe?

STATEMENT OF BEN H. RADCLIFFE, CHAIRMAN, EXECUTIVE COMMITTEE, NATIONAL FARMERS UNION, AND PRESIDENT, SOUTH DAKOTA FARMERS UNION, HURON, S. DAK., ACCOMPANIED BY DAVID M. WEIMAN, LEGISLATIVE ASSISTANT, NATIONAL FARMERS UNION

Mr. RADCLIFFE. I have Mr. David Weiman in back here, and he is a member of the staff.

Senator DOLE. I saw Reuben around.

Mr. RADCLIFFE. Reuben had to go to another meeting.

Senator DOLE. I would say at the outset that your statement in full may be a part of the record.

You can proceed in any way you wish. You can read the entire statement or summarize it or however.

Mr. RADCLIFFE. The statement is relatively short. I think I will stick with the statement as typed here.

I am most appreciative of the opportunity to appear here and testify today before this Agricultural Credit and Rural Electrification Subcommittee of the Senate Agriculture Committee. I consider it a real honor to appear here to urge your favorable action on the Young Farmers Homestead Act, introduced by Senator George McGovern, from the State of South Dakota.

One hundred and fourteen years ago, President Abraham Lincoln signed the original Homestead Act of 1862. His goal, and the goal of Congress, was to open up the Great Plains to settlement. But, the Homestead Act also reaffirmed a continuing Federal commitment to family farming. Lincoln knew that independent family farmers were the backbone of the Republic and in multiplying the numbers of family farmers, he was multiplying the strength of these United States.

Over the next 30 years or so, the Homestead Act offered to millions of native Americans and European immigrants the opportunity to own and operate their own farms. And, in what was to become South Dakota, family farming became a way of life.

But, today that way of life is being threatened as never before. Statistics from the U.S. Agricultural Census show that our State has lost about 1,000 farms per year for at least the last 10 years. Recently, that rate has declined a bit, mainly because we now have fewer farmers left to those and because off-farm employment opportunities in our area are few.

In the 1970's, it has become next to impossible for a young farmer to get into agriculture. In South Dakota—as across the Nation—the

aspiring young farmer is faced with a triple obstacle—inadequate and unstable farm prices, accompanied by escalating production costs and soaring land values.

Rising farm land values are making it increasingly difficult for farm families to pass their land on from one generation to the next. The burden of an outdated estate tax system often means that a portion of the family farm must be sold to meet Federal and State estate taxes.

Senator DOLE. I might say at that point we are in the process of revision of the estate tax. I am a member of the Finance Committee. We meet tomorrow morning at 10 and hopefully before the year is out, we will have some help in this area which is long overdue.

Mr. RADCLIFFE. I appreciate the effort that some of you have been making on that.

And that may mean that the deceased farmer's son or daughter is left with an uneconomic unit, unable to support a family.

If rising land prices make it difficult to inherit land, they make it virtually impossible for young farmers to get started without the aid of a wealthy relative.

South Dakota Farmers Union recently conducted a survey which revealed land prices ranging anywhere from a low of \$30 per acre up to \$1,300 per acre in our State. The average price was approximately \$320. And, I believe it should be pointed out that by national standards, much of this land could be classified as semi-arid. While these prices are for South Dakota, the situation is much the same elsewhere across the United States. If anything, it is more aggravated in Eastern and Southern States.

It should be obvious, then, that the availability of credit is crucial to the future of any young farmer who aspires to own his own land. But the current situation in South Dakota could only be described as grim.

Last summer, when we surveyed the availability of credit in the Huron, S. Dak., area, we found that it is nearly impossible for a beginning farmer to obtain credit for the purchase of farmland—unless he can get substantial help from a father or other relative.

We found that only the Federal land bank and the Farmers Home Administration are willing to make long-term loans for the purchase of land. But, even they indicated inability to provide full funding. Both institutions told us that the young farmer would need to get additional help from private banks and suggested getting a relative to help out.

A second conclusion of the Farmers Union survey showed that beginning farmers are subjected to a higher rate of interest than that facing established farmers. The average interest rate totaled about 9 percent.

We further investigated the credit obstacles lying in the path of young farmers through a mailed survey of young South Dakota farmers which we conducted early this year. We have a summary attached.*

We were particularly interested in the credit experiences of the young farmers and their feelings toward lending sources: The Federal land bank and the FmHA.

Of the 553 farmers who responded to the survey, 63 percent reported they had attempted to borrow money for purchase of a farm. Of those

*See p. 90.

who attempted to borrow money, 64 percent had gone to the FmHA while 29 percent had attempted to borrow through the Federal land bank. More than half had attempted to secure a loan at other local lending institutions. Many of these young farmers should have been in a better position to borrow than a beginning farmer starting from scratch, since 67 percent already owned at least some land.

The responses of those young farmers who had their loan requests turned down give a good indication of the inadequacies of the current Farm Credit System in the United States.

Again and again, young farmers reported being turned down because the FmHA or land bank couldn't or wouldn't loan the full amount needed.

One young farmer reported that he was approved for a loan by the FmHA, but their appraisal was \$90 per acre under what the land sold for and he couldn't raise the additional \$14,000.

Others told us the FmHA refused to take a chance on them since they were attempting to start from scratch. Another young farmer said the FmHA had told him they were out of money and 19 people would already be in line ahead of him when some funds did become available.

More than 200 young farmers also took time to give their opinion of the Farmers Home Administration. Those opinions were mixed, but the prevalent statement was critical of both the FmHA's attitude toward beginning farmers and its inability to provide adequate funding.

One young farmer told us, and I quote: "My opinion of FmHA is that you have to own land or have enough cattle to back you up or they won't loan you any money. They don't give you a chance."

Those young farmers who had a favorable opinion of FmHA noted that the Agency is often much too slow in approving loans.

In offering criticism of today's farm lending institutions, we are not telling you that they are not needed and that they do not provide a vital service to rural America. They are and they do. What we are attempting to get across is our conviction, based on what we have learned from farmers throughout our State, that the FmHA, the Federal land bank and other institutions are not doing the full job—that for one reason or another they are unable to fully meet the growing credit needs of today's young farmers and they are especially deficient in their ability to assist the beginning farmer who isn't already backed up by land and machinery.

But, perhaps one of the most significant statistics resulting from our survey of young farmers was this—fully 93 percent of these beginning farmers hope to eventually own their own farms. To me, that seems to be clear testimony that family farming can survive as a way of life in this country and in South Dakota—provided that we as a Nation are willing to make sure young farmers have the opportunity they need to get a start.

It was that belief, along with the solid endorsement of the Saskatchewan land bank concept voiced by South Dakota Farmers Union delegates at our State convention in Huron, that led us to support Senator McGovern's Young Farmers Homestead Act. It also led us to work for passage of the South Dakota Homestead Lands Act at our State capital in Pierre.

We are convinced that a new alternative to present systems of farm financing and present sources of farm credit is needed. And we are convinced that the basic concept of Government aid to beginning farmers developed in the Canadian province of Saskatchewan and adapted to the United States in Senate bill 2589, can provide that alternative.

There are several features of the Young Farmers Homestead proposal which, we believe, can make it successful in enabling young couples to begin farming with some strong prospects for success:

(1) The creation of a Federal Farm Assistance Corporation, which could purchase family sized farm and ranch units at price appraisals made by the USDA Farmers Home Administration, would help keep the land from being acquired by corporations or investors not intending to farm the land themselves.

(2) The leasing of these farms by the Federal Farm Assistance Corporation to deserving and qualified young farmers for periods of 2 to 5 years would make it possible for these persons to get started in farming without the huge downpayment associated with purchasing a farm today.

(3) The period of 2 to 7 years during which the young farmer would lease the land would enable him to establish the equity which would be helpful to him in exercising the option to buy the land. The equity established under this proposal would facilitate the financing of the purchase of the land, through the Farmers Home Administration, the Federal land bank system, through regular commercial channels or through private sources.

(4) Since the Federal Farm Assistance Corporation would issue bonds, debentures or notes to raise the capital for purchase of farmland and because the corporation would recover the investment plus the major part of the appreciation of land values during the period of leasing, there would be no net cost to the Federal Government eventually in operating this program.

(5) The limitation on appraised value of units which could come under this program—\$200,000—would tend to encourage family-size holdings.

It has been asserted by the opponents of this plan that it would somehow result in widespread Government ownership of U.S. farmland. Nothing could be further from the truth. Farmers Union has always been committed to private ownership of the land by independent family farmers. We are supporting the Young Farmer Homestead Act because it will strengthen private ownership and the family farm system—the very basis of our American free enterprise system.

It is also claimed by opponents that the Saskatchewan program, which was the original model for both Senator McGovern's bill and the South Dakota Homestead proposal, provides "special favors" for what one critic called "worthless bums."

Farmers Union members have always felt that there should be no stigma attached to being a small farmer. Indeed, when South Dakota Farmers Union members went to Saskatchewan they found the young farm families involved in the land bank program to be decent, likeable, and upstanding.

What we are faced with today is a national crisis. A crisis in land tenure. Unless we act soon the family farm system that has served America so well may soon be phased out of existence.

Potentially, as important as it could be, the Young Farmer Homestead Act alone would not be the total answer to the plight of the family farmer—we need tax reform—we need reform of our outdated estate tax system—we need international commodity agreements—we need need a national policy on food.

In this Bicentennial Year, what more appropriate gesture could we make than to renew our national commitment to independent family agriculture. I ask you to support the Young Farmer Homestead Act.

Thank you.

I particularly call your attention to the attached survey of the young farmers in South Dakota. This is probably the most indepth survey that has ever been made in this country in recent years on the credit problems of young farmers.

Senator MCGOVERN. Thank you very much, Mr. Radcliffe.

Could you stay here at the witness table while we go answer the second rollcall? We will try to get back in just a few minutes.

Mr. Cardwell, if you could remain for a few minutes too, there were a couple of questions that may not have been asked that I would like to direct to you when we get back.

We will just take about a 5-minute recess. I think we will be able to get through our witnesses all right.

[Short recess.]

Senator MCGOVERN. Mr. Cardwell, I wonder if you could join Mr. Radcliffe here since I did not get a chance to ask you any questions.

As I understand, President Radcliffe of the South Dakota Farmers Union, and who is also the chairman of the executive committee of the National Farmers Union, over the years the Farmers Union has supported the Farm Credit Administration?

Mr. RADCLIFFE. Very much so.

Senator MCGOVERN. And supported the Farmers Home Administration.

So, there is no essential quarrel with the job that those farm credit agencies are doing within the limits of their authority?

Mr. RADCLIFFE. I want to make that quite clear.

We are not being critical of these agencies as a whole. What we are saying is they are just not able to deal with the problem as it exists today and some new program needs to be developed with some expanded program to deal with this.

Senator MCGOVERN. That has been my position. That these existing Government credit agencies within the limits of what the Congress has authorized them to do and within the budget limitations and the loan authority have tried to do a conscientious job and I think have done a very effective job.

Would you agree, Mr. Cardwell, essentially with the point that there is a broad area of young farmers here that you really cannot reach with your program?

Mr. CARDWELL. You mention the budget limitation, and just for clarity, there are no Government budgeted funds in the Farm Credit System. Funds come from the sale of bonds and debentures.

So, the privately owned institutions of the system are doing the financing. We—FCA—are the administrative supervisory unit.

But, under those circumstances of maintaining and sustaining a viable credit system for agriculture, the risk exposure limitations by

by this system are such that there are those interested in entering agriculture that the System cannot serve, because it reaches that stage of financing of the System borrower—members who are already established in agriculture.

Senator MCGOVERN. Do you have records or statistics that could be made available to the committee on the number of young farmers that have been brought into business in the last few years?

Would it be difficult for you to get that information?

You can define young farmers as you see fit, but let us say, if we were to take an arbitrary definition of the numbers of farmers, who have come into operation through the availability of Government credit, who are 30 years of age or under.

Would that information be readily available?

Mr. CARDWELL. We would have a hard time providing those coming in, but we could provide some statistics on those being financed who are engaged in farming and presumably if they are that young they have come in in recent years.

Just right quick. Last year, of those who borrowed from the Federal land banks, 51 percent of them were under the age of 44. Better than 20 percent were under 34.

Senator MCGOVERN. Well, I wish you or one of your associates could take a look at this survey that Mr. Radcliffe has furnished to the committee.

They have 553 questionnaires that have been returned.

I would appreciate it if you could take a look at the statistical breakdown they have provided for the committee and then respond at a later date to the committee advising us of your conclusions, what you think that survey shows in the way of any gaps that may exist in the present farm financing opportunities we have. I think that would be helpful.

Mr. CARDWELL. Do you have a copy of your statement?

Senator MCGOVERN. I will just give you my copy here.

That survey is attached to it.

[The following material was subsequently submitted by Mr. Cardwell:]

FARM CREDIT ADMINISTRATION.

Washington, D.C., June 25, 1976.

HON. GEORGE MCGOVERN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MCGOVERN: During your discussion with Mr. Ben Radcliffe and me at your subcommittee's hearing on the Young Farmers' Homestead Act on June 10, 1976, you requested that I provide for the record any observations I might have about the survey made by the South Dakota Farmers Union, which was a part of Mr. Radcliffe's statement.

Staff at Farm Credit Administration have reviewed the survey. We have concluded that we are unable to adequately provide any meaningful response without a knowledge of the selection mechanism and basis of the survey; i.e., types of farmer (part-time, full time), how they entered agriculture, their extent of involvement in agriculture, percentage of member-nonmember surveys, etc. Any analysis we could provide, at this time, would be inappropriate and insignificant to the Committee.

Thank you for giving me the opportunity to extend my remarks.

Sincerely,

C. T. FREDRICKSON,
Acting Deputy Governor,
Office of Credit and Operations.

Senator McGOVERN. Mr. Radcliffe, what about the concern that was expressed by Mr. Cardwell with regard to the inflationary impact of the program?

It is true there is only so much salable land that is going to be coming on to the market.

What is your response to the argument of bringing the Government in as another purchaser is going to have an inflationary impact on that land?

Mr. RADCLIFFE. Senator, there might be a trend or possibility for that to happen.

I think we need to bear in mind that land is going to go on the market in any event. The seller is going to sell the land because someone is retiring or for whatever the reason might be. The land is going to be on the market and there will be bids put on that land to purchase that land and I am not sure that the Government being involved is going to have that impact on it. There might be some marginal impact on land prices, but I think to counter that, the value or the importance of ultimately putting this land in the hands of the young farmer who will live on it and farm it, rather than letting it go into the hands of some speculator or corporation, I think that positive feature of the program would balance the danger of the inflated land price issue.

Senator McGOVERN. Would you not also envision that if we moved into a program of this kind under the guidelines of the legislation further refined by whatever Government agency is administering it, there would be certain ceilings set on what they could offer in terms of the purchase of land?

Mr. RADCLIFFE. Well, your bill designates the authority for appraisal to the Farmers Home Administration. They are doing that now. They are in the market now assisting young farmers with a limit to the amount of capital that is available to the Farmers Home Administration.

That is part of the problem. So, we are doing that now with the Federal Government, and I expect, as you suggest, with proper restraint this problem could be handled.

Senator McGOVERN. All right.

I think under the time restraints we are operating, what I would like to do is reserve the right to submit any additional questions we might have to you and to your colleagues, Mr. Cardwell, and the same to you, Mr. Radcliffe, but I want to thank both of you for your patience in bearing with us under this rollcall situation. I appreciate you both testifying.

Our next witness is Mr. C. P. (Buck) Moore, who is a member of the Agricultural Bankers Division of the American Bankers Association, and he is also president of the Northwestern National Bank of Sioux Falls. Mr. Moore is a man I know has given a good share of his life to thinking about the problems of farmers and the financing of farming operations.

The banks play a crucial role, as we all know, in our farm economy. We cannot function without them.

So, I am very grateful, Mr. Moore, that you are willing to come to Washington and testify on this matter because I think you can be very helpful to the committee in pointing out some of the problems that we may have to keep in mind in trying to get at this problem we are

all concerned about; dealing with the farm credit needs of our young farmers.

You can proceed in any way you see fit.

STATEMENT OF C. P. (BUCK) MOORE, MEMBER, EXECUTIVE COMMITTEE OF THE AGRICULTURAL BANKERS DIVISION, AMERICAN BANKERS ASSOCIATION, AND PRESIDENT, NORTHWESTERN NATIONAL BANK OF SIOUX FALLS, S. DAK.

My name is C. P. (Buck) Moore. I am president of the Northwestern National Bank of Sioux Falls, S. Dak., and I am here today as a member of the executive committee of the Agricultural Bankers Division of the American Bankers Association. I have been directly involved in agricultural lending for 26 years with all but the first 2 of these years as an agricultural banker. The bank I am associated with has \$260 million in deposits, ranks 24th among the top 100 agricultural bank lenders, and serves several communities in southeastern South Dakota, all of which have an agricultural-based economy.

The American Bankers Association is a national trade association to which 91 percent of the Nation's 14,700 banks belong. Our industry is vitally interested in agriculture. This is demonstrated by the fact that one-half of the banks are in communities of less than 5,000 population. Eight out of 10 banks make agricultural loans, which totaled over \$26 billion at the beginning of this year. As an agricultural banker I'm pleased to have the opportunity to speak to you about the future of farm credit with special focus on its availability to young people entering agriculture.

I should like, first, to state some general beliefs about agriculture and the opportunities for young people; second, comment on the Young Farmers Homestead Act of 1975; and third, outline an action agenda to assure management and ownership succession for agricultural production.

AGRICULTURE AND OPPORTUNITIES FOR YOUNG PEOPLE

Our type of family farm agriculture has been excellent for this country. It serves all segments well, probably more efficiently than anywhere else in the world. This structure needs to be preserved. To do so, we must ensure that young people are able to move into agricultural production with a reasonable opportunity for success. We must continually find ways to maintain a competitive, individual entrepreneurship environment as the best method to maximize our country's agricultural production efficiency. And this means opportunities in farming and ranching must be at least equal to other business opportunities facing young people as they choose a life's work.

There are several ways today by which young people are able to start farming and ranching. Some begin by part-time cropping or livestock operations while continuing to earn their family living needs by off-the-farm jobs. Others begin by "partnering" with relatives and gradually "buying" or acquiring enough equity to go on their own. Still others negotiate "startup" loans from conventional lenders, relying on the guarantee of the father or some other responsible individual to provide lender's security.

Some young people use combinations of banks, insurance companies, Farmers Home Administration (FmHA), Federal land bank, and private individual sources. An example would be a young couple who have the desire and ability to meet the management requirements but very little capital. Basically they need to carry a loan which gives them the necessary equipment and breeding livestock and first-year operating expenses until income starts to flow. The land unit would probably be leased on a crop-share basis. Purchase of land is not necessary and perhaps not wise until the basic operation is going and the necessary cash flow for land debt servicing is available. Further, the couple may not want to tie themselves to the debt on land until they have had several years of operating experience.

Under these conditions the FmHA might set up intermediate-term credit, using a term of up to 7 years repayment, which would provide for the purchase of assets held as personal property—brood cows, machinery, vehicles, and so forth. Collateral for this loan would be these same assets as well as the annual crop and livestock increase. Then, to meet operating expenses, a local bank might extend a loan based on the FmHA subordination to their lien on the crop and/or livestock increase to give necessary collateral support to the loan. This would allow an "in and out" seasonal line and first call on repayment to the extender of the production expenses. This particular kind of arrangement has worked well on many occasions, but requires a three-way cooperative effort among the bank, FmHA, and the young farmer/rancher couple.

Another variation might be a joint approach to land financing when the young operator is ready to buy. The Federal land bank might carry the first lien on the land and the FmHA a second lien, with the total financing being 100 percent of the agreed upon value. The individual seller might also be in a subordinated position under certain circumstances.

The Federal land bank has a deferred payment plan—interest only for the early years with an amortization schedule that may be as low as 50 percent of the debt paid at the end of the term. The FmHA has a 40-year repayment program. Insurance companies are also an important lender in some regions in providing long-term farm credit. This combination of credit can be a useful tool in the acquisition of land. Under proposed legislation which would increase the FmHA individual loan limits, the benefits of the program to the agricultural community would be enhanced.

Innovative future planning in agricultural lending to develop a system where a portion of land debt might be more perpetual than we have seen in the past would allow more ownership capital growth for funding the balance of the personal property assets needed in production. This arrangement would be similar to bonded debt handled by a large company.

All lenders—insurance companies, Federal land bank associations, production credit associations, and banks—can do more to help finance young farmers. It only takes an attitude change, solid educational effort on the methods and tools presently available, and some research and development to make improved changes with an existing lending program.

One of the things that concerns me most, in view of the many sources of credit available to the young farmer today, is that he must be careful not to get himself into debt too far. Loss through adverse weather or unfavorable market conditions, coupled with a large capital debt, can become unmanageable. The lender must be willing to spend the extra time in helping to put together short- and long-term goals and in evaluating the young farmer's projections for the future.

The positive and negative aspects of financing the young farmer must be looked at. On the negative side, we see lack of experience, shortage of collateral, no past record to indicate trends in business or management capability, or lack of mature judgment. On the positive side, we see youth, energy, intelligence, better planners than their fathers, innovators in modern technology, and progressive thinkers. A lack of financial stability makes it mandatory that projections and cash flow be used in determining the profitability of the business. Qualified bank personnel supervision at the outset is a must until the young farmer gains enough experience to continue on his own.

It is assumed by many that one must have a very large capital base to start farming or ranching. This is simply not true. Young farmers know that they have to start out with some kind of a base, and many use various means to acquire it: rented land, using machinery in exchange for labor, wife working at an outside job, small labor intensive hog farrowing operations, winter job, growing light calves (takes a lot of care) which a large operator cannot provide. For these kinds of operators who have the initiative, enthusiasm, and imagination that it takes to grow, opportunities will present themselves along the way—opportunities to buy land and equipment based on their ability to expand their credit lines. They should use credit as a tool, not as a crutch. They should not use an overextended line of credit to begin their farming operations.

As we improve our programs for financing young farmers, we should recognize these points:

Farming in the short run can be a relatively high risk business.

There is a need for some capital base.

The capital base will vary: It may be a farmer's ability, leased assets, outside income, Dad's help or other's.

Banks and other lenders need to make a commitment to finding satisfactory methods and funds to start capable young farmers in agriculture.

The banker must be qualified, with an expertise in agriculture, to do the job.

It takes patience, understanding, and sound planning on the part of the banker or other lenders.

Farming cannot be just a "way of life"—it must be profit oriented.

The young farmer wants and should have living conditions on a par with what other business opportunities provide.

Getting together with a young farmer will be a long and gratifying romance.

Young, successful farmers are good planners.

Financing young farmers is an investment in the future.

An increasing number of young people are coming back into farming.

This final point is significant. We had the opportunity last November at our national agricultural conference to hear Dr. D. B. Varner, president of the University of Nebraska. He gave an excellent, optimistic address on the opportunities for young people in agriculture. Dr. Varner reported the results of a survey done by 14 midwestern colleges of agriculture which showed that in 1974, 24 percent of the graduates returned to the business of production agriculture. He pointed out that this was a surprising finding, since a short 5 years earlier a comparable survey found that only 10 percent finishing agricultural college went back to farming.

It is gratifying that there are people in government, the financial world, and agricultural communities making an effort to meet the challenge of the increasing dilemma of providing high risk capital for young people in agriculture. We need to find ways for the risk to be shared by all. These young people need our assistance. But, above all, we need them—young people in the business of farming for the future.

To summarize:

There are tools available to finance young farmers—however we need to be more innovative.

Success in financing young farmers results from identifying those who can truly manage their business and are motivated to do so; and offering a “credit package,” including planning for short-, intermediate-, and long-term credit, that is structured so that the cash flow which the young farmer will normally generate will service the debt.

Periodic farm visits by the lender help to establish creditability and demonstrate the lender’s interest in the farm family’s future success.

The use of the FmHA programs, along with the bank’s system, helps our “batting average” for successfully financing young farmers.

Failure on the part of the young farmer is generally due to:

Lack of management ability.

Overextension of credit resulting from merchant credit which the bank is not aware of, or the bank’s failing to face up to a critical loan situation before it is in trouble.

Neglecting to completely analyze the loan request so that the total needs are not determined or the repayment program not properly evaluated—usually resulting in overestimating repayment and underestimating expenses.

A general lack of attention to business on the part of the farmer/rancher and lack of interest on the part of the lender.

YOUNG FARMERS HOMESTEAD ACT OF 1975

I have attempted to point out that the basic tools are available to aid young people. However, some definite steps should be taken by Congress to increase the effectiveness of these tools. I will cite these actions in a moment, but before doing so, I would like to make a few observations about the Young Farmers Homestead Act proposal.

The objective of this proposal is highly commendable. It has been helpful in creating a dialog as to the requirements of young people

entering farming. We urge this committee to continue its review of the opportunities for young people entering agriculture.

Two major basic concerns about this proposal are:

1. *We believe it is economically unsound for the Federal Government to compete in the marketplace for a scarce resource—farmland.* We are concerned about the inflationary effect on farmland. High and rapidly rising land prices are already a major obstacle for entry into farming. It is doubtful that good farmland in the Midwest could be purchased at today's FmHA appraisals. We believe the interference and disruption to local farmland markets and the adverse effect on existing farmers needing to expand is too high a price to pay.

2. *The overall program does not appear to be helpful to young farmers in establishing an economical unit.* We see these problems:

The proposal is not limited to good managers, which our experience clearly indicates is a must. In fact, the program would encourage others not committed to farming as a full-time career to move into agriculture part-time.

The proposal does not address the real problem for a young person—that of obtaining needed operating money. In fact, because of its strict crop lien requirements, it would prevent needed outside financing.

The program would saddle a young family with a heavy debt on fixed assets, resulting in an excessive drain on their cash flow. Such a concentrated heavy debt loan can quickly ruin a young family.

The program places greatest emphasis on the ownership of land as a primary objective for a young person. Instead, we believe the emphasis should first be the establishment of an adequate size operation with sufficient cash flow to service the debt and support the family unit. The \$200,000 limitation would allow only a 100-acre cropping operation in the Midwest—too small to be successful.

Each individual farmer's situation is different, and as I indicated earlier, his options for establishing a needed capital base will be different. We therefore believe there is considerable wisdom in Congress focusing its attention on the strengthening of a variety of existing loan programs which would allow lenders to customize loan programs to the needs of each farm family.

ACTION AGENDA FOR YOUNG FARMERS

The following action agenda is suggested for assuring that a new generation will manage the business of food production, and it will call for a combination of actions by public and private sectors.

The first dimension is to *allow an environment which offers profit opportunities.* The favorable income conditions of recent years is at least one of the reasons we have enjoyed an increase in the proportion of college graduates returning to the business of production farming. Credit is not a substitute for income.

A second dimension, and one that has been greatly overlooked, is the *preservation of capital resources in agricultural production.* Each generation in agriculture seems to be faced with a recapitalization and refinancing of the business. This problem is being addressed by

Congress in its reform of the estate tax laws, and the ABA's support of a change to reduce the tax burden has been presented to the appropriate committees. We would like to offer, however, an additional suggestion relating to the taxation of farm property transfers to the next generation: We urge that consideration be given to the establishment of a tax incentive for the early (before death) transfer of complete farm operations—personal property, land, or a combination of both. Such a tax incentive could make an orderly transfer of farms possible. While we are not prepared today to lay before you a complete, workable tax incentive plan, we do feel it merits your exploration. We certainly would welcome the opportunity to work with you.

Some specific things we feel should be done to *maximize the effectiveness of existing FmHA loan programs* are outlined below. We admit, though, that much can be accomplished through a more positive attitude and broader awareness among those of us in the lending business. This is one of the primary objectives of the ABA's agricultural bankers division, and on June 24, we will release a new publication entitled "*Agricultural Lending: Sources of Funds*." Its purpose is to inform bankers of new opportunities available for them to work with other agricultural lending organizations in insuring a good supply of farm credit in their communities.

The principal legislative proposals we feel deserve your favorable consideration are:

1. *Increase in the FmHA individual farm loan limits* for both the operating and ownership programs. The doubling of the loan size and the elimination of the overall debt ceiling (for farm ownership loans) under the guaranteed program recommended in S. 3114 is a minimum action that should be taken by Congress. We have previously recommended that limits for the guaranteed farm program be handled administratively, putting the farm program more in line with business and industrial loans. Our immediate and primary concern is for an increase in the operating loan limit to provide adequate operating capital for an efficient family farm unit. This would be especially applicable to the young farmer.

2. *Separate funding for the loan levels for direct and guaranteed loan programs.* Under current law and regulations, direct and guaranteed loans are charged against a single amount established in an appropriation act. We believe guaranteed and direct loans should be funded separately. Direct loan appropriations should be set at the level of loans to be made, since the funds come from the Government. However, guaranteed loan funds come from private sources and the amount established should represent only a proportion of the total amount to be loaned. We suggest an initial leveraging of 1 to 10—1 dollar of appropriation for 10 dollars of loan outstanding. The absence of separate funding arrangements has been the primary reason the farm guaranteed loan programs have not been used because, under the present arrangement, the limited FmHA dollars could be most effectively utilized through direct loans under subordinated arrangements with private lenders.

3. The present interest rate subsidy in the farm program has seriously limited its expansion. We believe it is in the long-term interest of farmers, including young farmers, to allow interest rates to seek a market level or certainly a rate not less than the cost of money to

the Treasury. Therefore, *we recommend that FmHA direct lending be at no less than the cost of money to the Treasury and that all the guaranteed loan programs be at local negotiated rates.* However, if an interest rate subsidy is essential in the guaranteed program, it should be confined to the farm ownership loan, and the rate should not be less than the cost of money to the Treasury.

4. One of the major problems facing the FmHA—certainly in the field offices—is the overload of new programs. The workload of servicing FmHA programs has increased, particularly in housing programs. Bankers increasingly have become concerned about this impact on the ability of FmHA people to administer the farm programs, especially the time-consuming need to work with young people. *We strongly urge Congress to give high priority to providing the FmHA the resources—personnel and systems—and the authority needed to effectively service farm loans.* The agency's personnel squeeze has resulted in a "time drain" away from agriculture.

It is important to realize that because of the above barriers, we have not had a real opportunity to test the guaranteed FmHA farm loan programs. We believe, therefore, that these changes should be Congress' first action to help the young farmer. The agricultural bankers, through the ABA, offer their full support.

Senator McGOVERN. Thank you very much, Mr. Moore.

First of all, I want to say, speaking for myself, that I agree with the recommendation you have made that we strengthen the additional authority of the Farmers Home Administration and other Government credit agencies.

I, frankly, do not think there is enough in the Young Farmers Homestead Act, even if the Congress were to authorize it, to meet the whole range of farm credit problems. It is tailored to a certain category of young farmers who, we had felt, at least those of us who were sponsoring this measure, could not be covered by existing farm credit agencies.

But, I do think the Farmers Home Administration has done a good job. I think they have been too restricted in the capital they had to operate with and that their authority should be extended and broadened.

Within the limits of the time we have here, and it is going to be brief, there are a couple of points you have made in the way of criticisms of the legislation, the Farmers Homestead Act, that I think really are based on a misunderstanding of at least what I intended to be the guidelines of this program.

You say that the proposal is not limited to good managers.

Well, it would be my feeling that it should be that the agency that signs off approval on one of these leasing arrangements with the farmer, that their primary obligation would be to see to it that this land is made available only to good managers, the people who have some demonstrated indication that they could run a good farm operation.

I could not conscientiously push this legislation if I thought it was going to be open to everybody that came along. I think it ought to be drawn in such a way and the guidelines ought to be set so that its provisions are not made available to people that we do not have reason to think are going to be good managers.

I think whoever is administering it, whether it is the FmHA or some other agency, would have to make a very careful check just as the bank does to determine whether or not they are entering into one of these leasing arrangements with somebody that might not prove to be an effective operator, and if during that period of 2 to 7 years there is indication that that person is not qualified to operate one unit, he ought to be phased out without any further operation.

The second point you have made is you say, in fact, the program would encourage others not committed to farming as a full-time career to move into agriculture part time.

Well, as far as I am concerned, if there is any doubt on that point, we ought to draft this legislation in such a way as to exclude from its coverage part-time farmers.

It is intended to deal with bona fide family farm operators who want to make their livelihood primarily on the land, and if there is any doubt in your mind about our intent on that, or in anyone else's mind, I would hope we could tighten up the provisions of the legislation to exclude part-time farmers. They can get their financing somewhere else. They are not really covered under the provisions of this act.

But, I think the fact that anxiety was raised in your mind indicates we need to take a further look at the bill and see.

Mr. MOORE. That is the purpose of it, sir.

Senator McGOVERN. Yes.

I think some of the points you make are valid ones that the committee should consider.

Mr. MOORE. Certainly it is meant to be constructive.

Senator McGOVERN. I understand that.

I think your testimony has been constructive and you have raised some important points.

There was an article that appeared some time ago in which you played a part, Mr. Moore. The title of it is: "Banker Tells Young Farmers How They Can Get Needed Loans" and it raises some interesting questions.

I would like to submit to you some questions that we do not have time to get into today, but if at your convenience you can take a look at these questions and then send the committee your response to them, I think it would be helpful.

Are you familiar with this article that I am referring to here?

Mr. MOORE. Yes.

Senator McGOVERN. If you could take that article together with the questions and then at your convenience give us your response to the questions for the hearing record.

Mr. MOORE. I would be happy to.

[The following material was subsequently submitted by Mr. Moore:]

THE AMERICAN BANKERS ASSOCIATION,
July 2, 1976.

HON. GEORGE McGOVERN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR McGOVERN: At your June 10 hearings concerning Young Farmers you requested that I reply to certain questions.

Question 1. Are we only worrying about the young farmers who have management ability and can produce a healthy cash flow? Or do we need to give con-

sideration to others who want to enter farming but can't come up with the requirements we have set?

Answer. It is my opinion that a person going into any business, including farming, should have some prerequisites before entering the field of his choice. In farming, we look for those people whom we feel will be successful. Many rural non-farm people feel they have an inherent right to own a piece of land and be a farmer. They do not believe it takes a great deal of talent to farm. Nothing can be further from the truth! Farming is a most specialized industry requiring ambition, technical knowledge, some "capital base" (not necessarily his own) and an individual with the willingness and the ability to plan his future operation. Any program we develop should be on the premise that it will be for those who can reasonably be expected to be successful. To saddle people who lack the basic qualifications with a large debt would not be a kindness.

Question 2. Would I explain for the record how 100 percent financing works?

Answer. "Tools" are available to provide 100 percent financing, although there would be few cases in which this type of financing would be needed. However, under certain conditions it is possible for a person starting out in farming to obtain nearly 100 percent financing. In addition to their own ability, their own technical knowledge, their own desire, a plan could be assembled that would involve the cooperation of: the seller or lessor of a piece of property; the Farmers Home Administration for a capital loan on a term basis for perhaps seven years; and a lender (bank, PCA) for the operating loan. The operating loan would be subordinated, and the increase from livestock or crop income would be used to pay current operating expenses and to service the FmHA debt.

If land were to be purchased, it is possible to obtain a long-term FmHA loan; the Federal Land Bank could also make a loan on this property, FmHA taking second position. In some cases, the seller of the land might subordinate his position.

The following variety of "tools" could be useful in accomplishing full financing: (1) the guarantee of a financially responsible person, possibly a member of the young farmer's family, (2) subordination by the landlord of payments on senior debt, (3) the leasing of capital assets, and (4) use of an organization structure such as a partnership or corporation.

However, it is essential in 100 percent financing of land purchases that adequate cash flow be generated by the farm operator to service the debt. In my experience, young farmers who lease the land they need rather than buy it maintain greater cash flow flexibility, since leasing costs rarely are as large as those of debt service on the same land.

To obtain the operating capital necessary, the same program could be used as I have outlined above.

Question 3. What do you think of the insured loan programs? Do you think the government should get into insured loan programs at a higher level?

Answer. We advocate the use of the insured loan program where the risk is high and there is a need for above normal supervision. The ownership and operating "insured loan" program can be particularly important for the beginning young farmer. In these programs the Farmers Home Administration has provided good supervision.

The bank involvement, except for investment of funds, is in the Farmers Home Administration guarantee program. The guaranteed loan program does not necessarily provide a safety factor. The government guarantee provides some stability or lessens the risk so that these loans may be sold in a secondary market. When guaranteed loans are in the bank's loan portfolio, they are not computed when determining the risk asset ratio.

Lenders (banks and others), have a strong demand for money to finance farmers and ranchers. Banks are required to maintain liquidity making it imprudent to tie up a high percentage or an unbalanced percentage of deposits in intermediate term credit (basically what farm loans are). However, if these loans can be made under the guarantee feature to beginning farmers and ranchers, then hopefully we will be able to move these into a secondary market and continue to be in the market of making loans to deserving young farmers and ranchers.

We have had insured loan programs through the FmHA for a number of years. In view of increased cost of land, increased cost of machinery, and higher operating costs, it seems reasonable that these insured loan limits should be increased. Our recommendation is that they be increased approximately double what they are at the present time. Presently, operating loans are \$50,000 and ownership are \$100,000.

Question 4. Since I advocated an insured loan program with the insurance provided by the government, you ask why do I strongly object to the government acting as an interim landlord for seven years as provided in the Young Farmers Homestead Act?

Answer. As indicated in our statement, we believe it is economically unsound for the Federal government to compete in the marketplace for a scarce resource such as farm land. Government competition will have an inflationary effect on the price of farm land. High and rapidly rising land prices are already a major obstacle for entry into farming. It is doubtful that good farm land in the Midwest could be purchased at today's Farmers Home Administration appraisal prices. We believe the interference and disruption to local farm land markets and the adverse effect on existing farmers needing to expand is too high a price to pay.

The program would saddle a young farm family with a heavy debt on fixed assets, resulting in an excessive drain on their cash flow. Such a fixed concentration could ruin a young family.

The program places too much emphasis on ownership of land. We believe the emphasis should first be on establishing an adequate operation with sufficient cash flow to service operating debt and support the family unit. The land purchase is best undertaken when the young farmer has become well established.

Question 5. Some front-end relief in the amortization of the young farmer's debt is the principal thrust of the Young Farmers Homestead bill. Is this an admirable objective and do I have any recommendations on how we can accomplish this in any other manner?

Answer. We certainly have no objection to the special attention to amortization of the loan which is addressed in the proposed legislation. More important considerations, however, are those I have already mentioned:

(1) the inflationary effect,

(2) inability to buy land at the FmHA appraised value, and

(3) the fact that if this program were initiated, it would be necessary for the FmHA appraisals to be increased so it could accomplish the purpose, which is to buy land to lease to young farmers.

At present, it is possible for lenders to adjust requirements for amortization of principal so as to minimize payments during the early phase of a loan. The Federal Land Bank has a program whereby it may make a loan to a farmer/rancher that is not amortized but interest only is paid for a number of years. It also has a program that requires as little as 50 percent of the loan be amortized over a 35-year period. The FmHA has a 40-year loan which has a relatively low amortization.

Sincerely yours.

C. P. MOORE.

Senator McGOVERN. Well, thank you very much for your testimony, Mr. Moore.

I regret the absence of time to go into it more in detail, but it will be helpful to us in our hearing record.

I appreciate your presence.

Mr. MOORE. Thank you.

Senator McGOVERN. Our final witness is Mr. Charles Frazier, who is the director of the Washington staff of the National Farmers Organization.

He has been before this committee many times, and we welcome you here today, Mr. Frazier.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON STAFF, NATIONAL FARMERS ORGANIZATION

Mr. FRAZIER. Thank you, Mr. Chairman.

First, if you please, I should like to make my statement a part of the record and simply comment on some of the points that I undertake to raise for your consideration.

Senator McGOVERN. Fine.

The entire statement will be made a part of the record.*

Mr. FRAZIER. There was earlier reference to the Young Farmers Credit Conference sponsored by the Farm Credit Administration a couple of years ago. I have a reference to it in the material presented.

Some of our young members were participants in the conference then, and some of my suggestions offered this morning are based on their comments and the material they made available to me at that time.

Now, to summarize quickly, first I think you are to be commended for drafting and starting this legislation. There is a need for the bill.

I agree with other witnesses that the Farm Credit Administration and the Farmers Home Administration have made some valuable loans to young farmers. They have done very well under their authority and with their limitations of funds. But nevertheless, there are a number of young couples out there who deserve an opportunity to start in farming that cannot be reached by current availabilities.

I think there is an analogy that might be of some significance to the Congress in considering this bill. The problems of a number of these young farmers are similar to those of young businessmen today who would like to start in an independent business capacity, but who find themselves confronted with franchise arrangements, chainstore operations, and a number of other monopoly-type situations that simply preclude or limit their abilities.

In the case of farming, thankfully, we do not have chainstore farming. We only have a hidden form of franchised operation existing in some commodity production.

Nevertheless, a large part of our farmland is now in very strong hands. The competitive bidding for that land, brought about by high-priced inputs and high cost of operation, and the pressure to build larger units in order to cope with these inflated costs of operation, have tended to make it much more difficult for young couples who would like to go into farming.

Now, I think most of the provisions in this bill are well drawn, those related to the purchase and rental arrangement as well as the sale arrangement.

So, my comments have more to do with the spirit and the thrust of the bill, and its public acceptance, than the detailed provisions.

There was earlier reference to the matter of good management and the types of individuals that might take advantage of this opportunity.

I offer you two thoughts along this line.

No. 1, I think the program probably should not be pushed hard in the very higher priced land areas. I think it might be a mistake to create a new pressure on rising land prices in some counties.

By the same token, it would be a mistake to interest young operators in trying to start farming in some of the very marginal land areas of the country.

But between those two extremes, we have millions of acres of good farmland in this country that probably are not being operated to their fullest potential today. There are older operators in those areas who need a sale for their land in order to retire, and there are young people there that given a proper credit opportunity could take over that land and could build good units in either livestock or grain production.

*See p. 91 for the prepared statement of Mr. Frazier.

So, you are encouraged to offer a program designed to fit those areas.

I offer another caution about the matter of outside income and part-time farmers. Unfortunate as it may be in many cases, some member of the family does have to bring in some off-farm income in order to survive economically.

I brought this up in my statement because I wanted to encourage that the thrust of this bill recognize this type of action, but extend credit to those young couples who really intend to make it in farming, as the other witness brought out.

You cannot preclude an outside job, if you please, or some source of outside income.

Senator McGOVERN. If you could just defer momentarily, I would like to question you on that, Mr. Frazier.

I will run over and answer the rollcall and be back in just a few minutes.

Mr. FRAZIER. Surely.

[Short recess.]

Senator McGOVERN. All right.

Mr. FRAZIER. Mr. Chairman, I pretty well summarized my paper, but there is one major thought that I should like to bring to your attention.

When we think of public acceptance of the bill and farm credit activity in this country, personally I am quite alarmed by the development of one attitude in recent years. That is to the effect that farming has reached that point in its capital requirements that most of the units must be operated in a continuing debt status.

In other words, there are a number of people who are ready to discard the old concept that the young family would work hard and save their money and pay for the farm—then enjoy owning it for a few years.

Now, at least in my limited experience, this concept of a continual debt type of farming is part and parcel of the other concept of absentee ownership, corporate ownership, and a form of the tenant operation that most of our ancestors sought to overcome when they came to this country and settled on the land.

So, to the extent that this bill would offer one group of young farmers an opportunity to actually own and operate their own land and pay for it in their own lifetime, it is quite worthwhile, even if it had no other virtue.

I think we must turn around this attitude that I described in the financial circles in this country if we are going to maintain what many of us glibly refer to as family farming.

Senator McGOVERN. Well, I think you would agree there is certainly nothing new in American history about the concept of the Federal Government playing some role in helping people get started on the land.

Mr. FRAZIER. That is quite right.

Senator McGOVERN. The whole philosophy of the Homestead Act that was enacted in 1862 when Abraham Lincoln was President was to take a part of the public domain and make it available to bona fide farmers as homesteaders.

This act does not go anywhere near as far as that in that it provides for a repayment schedule. It provides for a financing arrangement that the farmer would have to undertake either through private arrangements or with Government credit agencies at some point after the initial waiver period.

Mr. FRAZIER. Right.

Senator McGOVERN. Regardless of what else can be said about it, it is well within the American tradition of the Federal Government playing some role in trying to help its citizens get started on the land as farmowners, as homesteaders.

You made a suggestion, Mr. Frazier, that I am somewhat curious about. You suggested that the program ought not to operate in areas of higher land values.

I am wondering with the Federal program of this kind that is supposed to operate across the board, how you would discriminate against areas which happen to have high land values.

Suppose you have a young man who lives in Iowa. He is in that rich corn land area of Iowa and he wants to get into farming in an area that he is familiar with, where he has grown up, where his family and relatives and his educational connections are.

Why would you say that such a person should not be permitted to participate in this program?

Mr. FRAZIER. Well, in the first place, Mr. Chairman, I was making the point not with respect to provisions of the bill. I would not suggest that some restrictive language be written into the act itself, but I was trying to make the point more in the nature of guidance for the administrators of such an act and in that sense perhaps I am just being a bit pragmatic.

I would like to see the legislation passed. I would not like to see it burdened unnecessarily with the charge that it would create more inflation in land values in some of those good land areas where prices have, I believe, now been pushed right to the upper limit in terms of present commodity prices and returns that would promise the possibility of paying off a loan.

In other words, if you were to take a young couple with relatively limited resources today and start them with 160 acres of that land at \$1,400, \$1,500, or \$1,600 an acre, you might not be doing him any favor, whereas you might quite logically put him in a position to be successful on some land at \$300 or \$400 an acre.

Senator McGOVERN. You are making in a different way somewhat the same point Mr. Moore made earlier; that, if you overburden a young family with credit in the long run, you may be doing them a disfavor rather than a favor.

Mr. FRAZIER. That is right and, quite frankly, I believe there is a heavy responsibility, as indicated in some of your earlier discussion, on the administrators of such a program to guide its applicability so it may be successfully operated.

Senator McGOVERN. Well, I do think that is one of the cautions that we are going to have to look at very carefully.

Even in the public testimony I heard in Saskatchewan, some farmers, some bankers and farm credit people, and others warned against a kind of an open-ended program that might, in fact, substitute liberalized credit for a strong farm economy.

I think it was Mr. Moore who said a credit is no substitute for profit and, of course, that is true.

We are not doing people a favor if we do not have the type of farm economy that enables them to make a decent return on the land, no matter how they finance it.

Mr. FRAZIER. Right.

Senator MCGOVERN. One other point I wanted to raise with you.

You have been very sensitive to the public reaction to this program and I would have to say that I have run into a certain amount of public criticism. Even to the concept of the Government purchasing land to make available to young farmers, there will be some public reaction that will be negative.

On the other hand, when you travel around a State like mine or you must have run into this in your work, you do get this rather widespread anxiety about how young people cannot get into agriculture any more.

I have had a lot of older farmers say how does a young man get started.

Mr. FRAZIER. Yes.

Senator MCGOVERN. So, you have a contradictory mood there as far as the public is concerned. On the one hand, you have a kind of precaution about the Government getting involved in land purchase and, on the other hand, you have a cry to the Congress to do something.

It seems to me we have run into that with so many public issues these days. There is a certain suspicion of the Government becoming involved, yet a rather loud clamor when we do not respond to what is not being met today in the private sector.

Mr. FRAZIER. I could offer you one brief comment that might be helpful.

For example, just in the membership of my own organization I am faced with somewhat the same dilemma. There are those who think in terms of avoiding Government interference in transferring the farm on to the next generation and so on. These people will probably be resisting the thought of the Government purchasing land.

But, on the other hand, in each of our national conventions there is always a long discussion of a couple hundred people making up the resolutions committee about the problems of the Farmers Home Administration and how to make it more helpful; how to make money available; their limitations on funds; and the lack of ability to respond to all of the needs.

So, that is why at the close of my testimony I am suggesting a wider discussion of both the provisions and the need for this bill.

I think it can be publicly acceptable, but perhaps it does need a little time and a little broader discussion out there in the country.

Senator MCGOVERN. Well, thank you very much, Mr. Frazier.

Our authorized time has expired, so we are out of business for this morning, but we will meet again at 10 o'clock tomorrow, subject to the understanding that no Senator objects.

We did not run into any trouble on that today, and I am reasonably confident we can meet again tomorrow at 10.

[Whereupon, at 12 p.m., the subcommittee recessed, to reconvene on June 11, 1976, at 10 a.m.]

YOUNG FARMERS HOMESTEAD ACT

FRIDAY, JUNE 11, 1976

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE AND FORESTRY,
Washington, D.C.

The subcommittee reconvened at 10 a.m., in room 324, Russell Senate Office Building, Hon. George McGovern (chairman of the subcommittee) presiding.

Present: Senator McGovern.

Senator McGovern. I think as long as you are here, Senator Burdick, we will reconvene the subcommittee and you can proceed.

STATEMENT OF HON. QUENTIN N. BURDICK, A U.S. SENATOR FROM NORTH DAKOTA

Senator BURDICK. Mr. Chairman, I appreciate the accommodation. It will help me adjust my schedule this morning. As you know, we have other committee meetings.

Mr. Chairman and members of the committee, it is a great pleasure at this time to present North Dakota's commissioner of agriculture, Mr. Myron Just, who is here this morning to present a message on this progressive legislative proposal. It would be appropriate to mention a few of Myron's attributes that make him especially qualified to present that message.

Myron was born, raised and educated in the Prairie State of North Dakota. He is a graduate of North Dakota State University with a degree in agricultural economics. Ten months of his college education were spent in England studying as an agricultural exchange student.

Commissioner Just, formerly an associate editor of the Dakota Farmer magazine, has published articles in the following journals: the Union Farmer, World Farming, the Furrow, and the Minneapolis Tribune Picture Magazine.

After a term in the North Dakota Legislature, Myron spent 6 weeks during 1973 studying agricultural organizations and farm policy in 10 European countries. As a result of that study tour, 10 articles were published on such varied topics, as farm organizations and their political effectiveness in England, Norway, and Sweden; the Common Market and its agricultural policies; the International Federation of Agriculture Producers and its farm policies in Europe; the International Wheat Council in London and its role in the International Wheat Market; and the promotion of American farm goods in Europe.

In addition to his long list of achievements, Myron's most important qualification for his present position is that he and his wife, Ruth, own and operate their own farm in LaMoure County in southeastern North Dakota.

It is a great pleasure for me this morning to present Commissioner Myron Just.

May I ask, Mr. Chairman, unanimous consent to amplify these remarks and submit my statement later on?

Senator McGOVERN. Thank you very much, Senator Burdick.

We will see that your prepared statement is made a part of the record.*

We are happy to welcome you and to welcome your commissioner of agriculture, Mr. Just.

I will be glad to hear your testimony, Mr. Just.

STATEMENT OF HON. MYRON JUST, COMMISSIONER OF AGRICULTURE, STATE OF NORTH DAKOTA

Mr. JUST. Thank you, Senator Burdick.

Mr. Chairman, Senator McGovern, I appreciate the opportunity to be with you this morning and make some comments on the so-called Young Farmers Homestead Act. I will try to split my comments into a couple of categories.

First of all, generally some comments on the concept of the bill, which I heartily endorse, and then I will get into some questions and comments that I have on the mechanics of the bill.

While driving to my farm last weekend, I had the time to pause once again to appreciate the beauty and quality of life in North Dakota, and to consider the direction agriculture is moving in. Having lived in North Dakota all my life, there are still times when our plains and our sky overwhelm me, as I am sure they do you.

Senator McGOVERN. We are about to be overwhelmed here in Washington with the smog.

Mr. JUST. I notice it is very hazy and you do not have that much industry in the area either, but I guess it is the concentration of people and a lot of other things.

I think spending time in and seeing other parts of the Nation and world add to my appreciation of North Dakota and her people. There is a value to life here that is fast disappearing in much of the rest of our Nation.

Life in the last 25 years has become more and more complex. The complexity of life has caused many people to turn inward, to stop caring what happens to their land and their neighbors. I have yet to see that turning inward among North Dakotans as I have seen it in the rest of the Nation. But I sometimes fear that we, too, could turn inward and only concern ourselves with surviving while ignoring the land and those who inhabit it.

The road between Bismarck and my farm in Berlin is dotted with the remains of farmsteads, as is true in much of the Midwest. Each year we see fewer and fewer people farming, caring for our land. Wherever you travel in the State, you see the skeletons of houses that

*See p. 79 for the prepared statement of Senator Burdick.

not so long ago held people who cared about the land, about farming but, through old age, the winds of the marketplace, or whatever reason, decided they could no longer farm.

The main street of hundreds of small towns in the Midwest show the scars of former times when more people inhabited the rural areas; the empty schools, broken store windows, and dilapidated church steeples, and so on.

At one time, our State held more people on the land than the land could adequately support through good times and through drought. We have long since passed that time.

For the last 15 years, we have seen a dramatic decline in the number of farms, a decline of 1,000 farms per year in North and South Dakota. To me a large share of the value of living in North Dakota lies in the people who live here, especially those who care for the land, the farmers particularly.

North Dakota will be depreciated, in my judgment, if only large farm interests remain. We need the family farm. Without it the State suffers, not only through the loss of valuable men and women who farm, but the land also suffers through loss of people who care for it.

I think it is particularly interesting as we address this bill with the title you have given it in a Bicentennial Year that with all the interest in Thomas Jefferson, who is probably the principal architect in our Constitution, he really envisions the Nation of small farmers, and 100 years later we had the Homestead Act, and now in 1976 we are talking about a bill called the Young Farmers Homestead Act, which I think really is indicative of the kind of values that have prevailed, the kind of desires for our people in spite of the economics that prevail.

It was really an effort to socially achieve something that went against the grain of normal economics.

North Dakota will soon celebrate its Centennial. It is nearly 100 years since our Prairie State was populated by the Homestead Act which allowed thousands of families to choose an agricultural life style.

The pendulum has swung from the extreme of too many farms to the extreme of too few.

Only 10 years ago, it was hard to find a dozen young people who wanted to become active farmers. Prices were depressed and huge surpluses deprived the farmer of his pride. Times have changed, and the cities of the East and West are no longer the desirable haven of retreat for our young people.

The life style of the family farmer complete with hard work and private ownership is a beckoning call for the weary individual in our depersonalized corporate and Government bureaucracies.

The pendulum has swung and economic changes have taken place. Family farming is more than life style. It is a business requiring large financial outlays and good management. Credit is nearly as important for today's farmers as is good weather.

Quite frankly, in the last 20 years, with really spiraling inflation, we have seen just an enormous substitution of capital for labor. Where it used to be that farmers and small business people could bring their management and their labor and start a business because of the sub-

stitution of capital for labor, that is no longer possible. And if we are going to extend that opportunity, we are going to have to look at new devices, such as this bill, to try to achieve that.

If we do not do something about it, I can assure you that only the corporation with large financial assets and borrowing potential will compete for farmland.

We cannot allow this to occur for there is no productive system in the world that can compete with the American family farmer. He is not only merely a manager of assets or a tiller of the soil, but he is a person with respect for that productive system of air, land, and water.

So the question before us now is how do we insure that family farms will continue to exist.

North Dakota State law does not allow corporations to engage in agriculture, but we have still lost a large number of farms in the last decade because of the technology and just the inertia of economics in larger and larger farms.

The problem, as I see it, is the huge capital outlay required for beginning farmers. In North Dakota, a section of land, on the average, is necessary for a viable farm unit. As a matter of fact, the average farms are a little over 1,000 acres. An average cost of land in this State, and this is only an average—it is much higher in the East than it is in the West—much the same as it is in South Dakota, it is about \$400 per acre, which totals more than a quarter of a million dollars for just a section of land.

To that we must add another \$100,000 for machinery and capital purchases.

As you can well perceive, this investment is prohibitive for most young people, not only by them, but because as banks look at this and they look at the insecurity of farm income, they require even more than an average kind of security when it comes to loaning money.

The choices available are not many.

One, we can continue to allow family farms to be absorbed by larger and larger units.

I have already indicated that this alternative has many undesirable features.

A second choice is to assist farmers in pursuing a career in agriculture by providing realistic Government programs.

Having reviewed the Young Farmers Homestead Act of 1975, I can say that this proposed bill is a realistic approach in assisting young farmers. It does not create a large bureaucracy nor does it require huge expenditures of Federal money.

However, there will be many who will yell "foul," and taint the issue with the old tiresome cliches. They will not, however, provide reliable alternatives except to let the marketplace dictate what happens.

Several features of the bill are very unique and I commend you, Senator McGovern, and your staff for their insight. Particularly I like the homestead provision of the plan wherein a lessee, upon purchase, would be given 25 percent of the equity of the appreciated land during the term of the lease.

A second desirable provision guards against those persons who enter the program for speculative reasons only.

There is one portion of the bill that needs to be expanded. Section 7 delineates the cost to the lessee, cost of all real estate or other taxes levied against the farm unit for debt service expenses incurred in acquiring the farm unit.

Again let me use the figures of \$400 per acre cost at 7.5 percent interest on Treasury notes, which are conservative figures. The cost per acre on interest cost alone would be \$30 plus approximately \$2 in real estate taxes. This cost would be levied on each acre within the farm unit, not only the crop and pasturable acres included, but including also the farmstead acreage, section lines, wetlands, pasture, and other noncrop acreage.

I am certain that the \$32 rent cost on \$400 land would be prohibitive and not competitive with existing cash rent prices. I would suggest to the authors of the bill that a provision for an interest subsidy of 2 percent be included for the first 4 years of the lease. Therefore, on \$400 land, the cost to the lessee would be 5.5 percent, or \$22 per acre, plus \$2 real estate taxes.

The cost to the Government would be approximately \$10 per acre.

In the last 3 years of the lease, should the lessee not purchase the land prior to the 7-year maximum, the lessee would pay the competitive interest cost. It is my belief that the Federal Government would recover the interest subsidy upon the sale of the land. Also the lessee would recover his full interest costs in the last 3 years of the lease upon purchase of the land at 75 percent of the appreciated value.

I believe that, as written, the bill would not be a practical alternative in most agricultural areas of the Nation for young farmers unless some changes are made.

Until interest rates fall, it will be necessary for a 2 percent minimum interest subsidy.

I have heard some criticism of the bill as another example of Federal intervention in States' rights. To my knowledge, only Minnesota is providing special assistance to beginning young farmers. North Dakota and South Dakota have introduced legislation which failed.

My observation to that point is we need to provide young farmers with several credit alternatives. I cannot imagine a State and Federal program competing in this area where so much assistance is required.

I see the Young Farmers Homestead Act of 1975 as a realistic point of departure in assisting the family farm. The program must be functional and reasonable, which it appears to be. The growing cynicism within our Nation toward Government cannot be countered by half solutions to real problems.

If we can believe in the freedom of choice and the pioneer spirit of hard work, then the Jeffersonian principle of a nation of farmers owning their own land can continue to be a reality.

But if we continue to allow the marketplace to dictate who shall own land, then our freedom of choice, in establishing our own destiny, becomes more rhetoric.

In this Bicentennial Year and in the centennial of the Homestead Act, I ask you, the Members of the Senate, to place your faith in those principles that have made America strong.

Thank you, Senator, for the opportunity to make these comments. Senator McGovern. Well, thank you very much, Commissioner Just.

I had just two or three questions I wanted to ask you to comment on.

One of the concerns that has been expressed about the Young Farmers Homestead Act is that by bringing the Government into the purchase of even a limited amount of land as envisioned by this bill, you would further inflate land costs and create a hardship on those who were purchasing land outside of the framework of this program.

What would be your response to that objection that has been raised in the bill?

Mr. JUST. Well, I think that I can understand some of that logic, but I think that it is also answerable that there is never any shortage of buyers for land by those who have capital, and there seems to be plenty of those that are interested who have risk capital that they can put to work.

I think that it need not be additionally inflationary.

I think that there is a consideration of the seller here as well. I think there are plenty of farmers who are retiring who I think this bill is geared to principally who would like to see the farm continue by a younger farmer, and I think would like to see a bill like this set up like this so they could sell it into that kind of an arrangement. And I personally believe that they would purposely choose to sell it that route if they do, which I think they will. I think that is no more inflationary than the ordinary marketplace.

Senator MCGOVERN. I think that is the point.

Given the present land situation, there are probably always more bodies than there is available land, so you are really not creating an artificial demand when you provide the authority for the Government to purchase a certain amount of land out of the total that is available.

If they were not there, there would be other buyers, in some cases corporations, in some cases large landowners.

But, as you point out, there is no opportunity for the individual young farmer the seller may prefer to sell to if he could find some way to finance it.

Mr. JUST. I think, quite frankly, it could even go the other way because land is obviously being purchased as a good hedge against inflation by people who are interested primarily for its speculative purposes, not as much for the purposes of farming as owning it as a hedge against inflation.

I think if we can induce more people to come back or to purchase it, you know, as a viable farm unit and get those kinds of people dominating the marketplace, I think that it could be a positive thing.

Senator MCGOVERN. Are you familiar with the fact that the legislation does have a proviso that the Government bids in any event cannot exceed the Farmers Home Administration appraised value of that land?

Mr. JUST. Yes, I am aware of that.

I think that that is good. I think it is a reasonable safeguard.

I purchased my farm, for example, through FmHA loan, and I think one of the criticisms over the years is FmHA often has been too conservative and has not been able to assist farmers as much as probably

needed, but I think that they have geared themselves to a little bit more in the last 5 years. And so I think their appraisals are becoming more reasonable in terms of the market and are a good department to have involved in this thing.

Senator McGOVERN. Is my memory right that the North Dakota State Legislature attempted to pass legislation somewhat along the lines of the Young Farmers Homestead Act a year or two ago?

Mr. JUST. Yes; in the 1975 legislative session.

Senator McGOVERN. Could you tell us a little bit about what happened there, what the issue turned on, or what the legislative history was?

Mr. JUST. Well, I think that it was soundly defeated in the North Dakota Legislature not because people, agricultural as well as urban people, did not see a need for something like this, but I think it was perhaps defeated mostly because there was a lot of crying wolf about running up red flags, about they were going to set up a trust lands division in the State of North Dakota, and people said we would have the Government owning all kinds of land.

The North Dakota bill did provide for the possibility of the Government owning this land indefinitely, and I think that was a pitfall because, unlike this bill which provides, as I understand it, that the land must be put back on the marketplace within 7 years, I think so that you would not have the Government owning good farmland indefinitely. I think that was the principal objection. A farmer could have had a lease indefinitely and the Government could have held it indefinitely.

Senator McGOVERN. That is one of the major differences between the legislation now before us and the Saskatchewan plan. The Saskatchewan plan provides an option under which the Government can permanently control that package of land and simply lease it out to the owner. There would be no requirement on the part of the lessee ever buying the land.

He could be a permanent tenant if he wished.

We do not have that option in this legislation.

Well, thank you very much, Mr. Just. We appreciate your testimony. It will be a helpful part of our record.

Mr. JUST. Well, thank you very much.

Again I appreciate the chance to offer some comments.

Senator McGOVERN. Thank you.

Our next witness is State Representative Willis Eken of the State of Minnesota.

Mr. Eken, I will be glad to hear your testimony.

I believe Minnesota has a plan that is somewhat similar to this. There are some differences, but, in any event, we would be glad to hear your testimony and any comments you care to make about the Minnesota experience or your observation on the Young Farmers Homestead Act.

Senator Humphrey has a statement that he sent over to the committee, as a Member of this committee, and he is very much interested in this legislation. In fact, he and Senator Mondale are cosponsors.

I would like to ask that his statement be made a part of the record.* You may proceed in anyway you see fit.

*See p. 78 for the prepared statement of Senator Humphrey.

STATEMENT OF HON. WILLIS EKEN, A MINNESOTA STATE
REPRESENTATIVE, TWIN VALLEY, MINN.

Mr. EKEN. Thank you, Mr. Chairman.

I appreciate very much the invitation to appear before your subcommittee today and to talk about the Family Farm Security Act that we passed in this past session of the Minnesota Legislature.

For the record, my name is Willis Eken, State legislator from the State of Minnesota. I have served in the legislature for 6 years. I served as vice chairman of the Agriculture Committee. I am a farm operator in northwestern Minnesota and also chief author of the Family Farm Security Act.

I read with a great deal of interest the Congressional Record where you, Mr. Chairman, introduced the Young Farmers Homestead Act to the Federal Congress. I want to compliment you and the other authors on this legislation because there is a definite need to set new public policy as it relates to financing of young farmers to allow them to participate in landownership.

The introductory comments that you made in the Congressional Record certainly parallel the philosophy that the legislators and the Governor of Minnesota expressed as we dealt with the Family Farm Security Act.

Dr. Phillip Rupp, agricultural economist at the University of Minnesota, has since 1953 annually conducted a survey on the number of land transactions, types of financing of these transactions and also identified the type of buyer of a Minnesota farm. The information he has developed over the years in these areas provided some of the best basis in Minnesota for identifying trends in landownership.

He divided the State into several areas, one of those being the Red River Valley area, which includes the district that I represent.

In the years 1973, 1974, and 1975, his survey indicated, first of all, that land values in our area have increased approximately 155 percent, with approximately 58 percent of those identified transactions at the present time being financed on a contract for deed purchases. He also identified that in those years the expansion buyer was involved in 90 percent, 87 percent, and 94 percent, respectively, of the total number of transactions identified, with the operating farmer who purchased a unit for operation being down about 5 percent, and the investment speculation buyer around that 5 percent or less percent figure.

I believe this study documents solidly that the trend in landownership in northwestern Minnesota itself and in all areas of the country is, by and large, limited to the existing landowner. These figures identify the truism of the statement so often heard today that the only way a young person can acquire ownership of farmland is limited to, in most cases, either through marriage or inheritance.

Because of the growing concern of many legislators that this trend was not in the best public interest, a number of us in the summer of 1974 visited the Province of Saskatchewan, Canada, and reviewed their land bank program that was in operation there.

In reviewing the concept of their program and trying to apply it to the existing situation in the State of Minnesota, we felt it was impossible for us to pattern an act after their concept.

First, because of the high land values in our State, and with the limited resources available to our State government, we felt it was not feasible for us to look at a State purchase and leasing program. It was also our judgment that this concept would not meet with a majority approval through our legislative process.

We therefore developed the Family Farm Security Act, which was introduced in the 1975 session and became law with an effective date of July 1, 1976.

Now, I have distributed as part of the information I have with me today a section-by-section brief summary of the bill,* and if it is your wish, I could go through that very briefly and try to explain the mechanics.

Senator McGOVERN. If you could just summarize it for us, Representative Eken, I think that would be helpful, and maybe draw attention as you do that between the differences between the Minnesota concept and the Federal legislation that we are now considering.

Mr. EKEN. Mr. Chairman, to identify first the differences, I think the primary difference is that we are not using tax dollars in a sense of becoming involved in the capital ownership of the land or obligating the State in any way except through a guarantee fund in terms of the obligation against the State.

So we are trying to use the government mechanism to free up private capital.

Senator McGOVERN. Does the farmer have to make any downpayment under the Minnesota concept?

Mr. EKEN. The initial legislation, as introduced and passed by the House, we felt, would have insured that the buyer would not have to provide downpayment money. The measure we introduced called for 100-percent guarantee on the part of the State by the land acquisition loan. We passed that through the House by a substantial majority. We lost it in the Senate.

There was an amendment placed on the bill in the Senate that reduced that to 90 percent of the guarantee. The rationale used by the opponents was they felt there was no incentive to that private participant lender to do a good job of screening those applications if, indeed, we are going to have 100-percent guarantee on the total loan acquisition money.

Our argument against reduction was that farm operators today, and especially beginning farmers, have primarily three kinds of credit.

No. 1, you have your land loan.

Two, you have your personal property loan.

Three, you have an operating loan.

We stated in the legislation and through the rules that we are now developing that the application that goes out to the lenders is going to have to identify, first of all, the participant lenders in the capital acquisition of land. They are also going to have to identify the personal property needs, the capital needs of that individual when he comes in and applies, also his operating needs, and that private lender is going to have to identify the credit sources available to cover the personal property and the operating needs.

Therefore, he is investing his private capital without guarantee in this total loan operation, and we felt that that was a safeguard in itself

*See p. 93.

to protect to make sure that he does a good job of screening and make sure there was a cash flow projection, there was a realistic chance they could repay the loan.

We felt it was built in there.

It is still my judgment what we did by putting a 90-percent guarantee is diminishing the credit applicability by 10 percent.

Senator McGOVERN. So the essential difference is that the Government does not actually acquire title to any land, it simply guarantees the loan?

Mr. EKEN. That is correct, Mr. Chairman.

The bill is structured, of course, with the default section. This is an area of the legislation we had a lot of difficulty with. We faced the objection all through the process, primarily from one farm organization, in terms of the State getting into land ownership.

We were even having a lot of problems in the area of the default section, which is section 6 of the bill, and we set up what I think is a tighter provision than I personally would like to have seen, yet attempt to meet the objections of the opposition that is there.

Senator McGOVERN. Do I understand that the State of Minnesota subsidizes part of the interest cost?

What percentage is that?

What does the farmer pay and what does the State pay in terms of the interest burden?

Mr. EKEN. The payment adjustment section of the bill calls for a 4-percent interest participation on the part of the State.

Now, the terms of the loan are set up on a 20-year loan repayment schedule. That was done primarily for a couple of reasons.

One reason is we do not envision this program to be a total financing loan program in terms of the long-run acquisition credit policy, but rather a short-term startup kind of an approach where we hope that at some point they are going to acquire enough equity in that property that they can move into the private channel.

The second reason was we felt they could not go beyond 20 years.

We have another section in the bill that identifies a seller sponsored loan, and the thrust of this is to try to utilize the contract for deed sale approach, which is now the majority way of financing land transactions in Minnesota, primarily because I think, first of all, it gives a tax break to the seller. If they retain 71 percent of the equity in the farm sale, they get treated contract sale on the tax form.

Second, because we feel this will also keep some credit in the local community in terms of having that equity retained and invested in the farm.

Those contracts for deed sales normally are for 10 years or less, primarily because, in most cases, I think people sell when they are reaching that age of retirement.

We felt there was a limitation in how long we could extend that contract and still get people to participate. So we arrived at 20 years. We advertised out the interest and principle payments in total over that period. We anticipate no downpayment.

So, in the initial year of the loan, we are looking at a rather large sum of dollars, and the State then will participate at 4 percent with that total dollar amount so that in the initial year of the program, the State will participate to the greatest degree in terms of helping that cash flow projection, that repayment by the individual.

Senator McGOVERN. The State's contribution is 4 percent?

Mr. EKEN. Four percent.

Senator McGOVERN. Regardless of what the going interest rate is?

Mr. EKEN. Right. It is.

Senator McGOVERN. Apparently you are anticipating a rather high interest rate for the foreseeable future.

Mr. EKEN. Yes; we are.

I think it is our judgment, based on the discussions that we held, the research that we have done, I think agriculture is facing down the road strong competition in the area of available credit, and I think that indicates that we are going to see high interest rates continue.

Senator McGOVERN. But the farmer immediately, under your plan, begins making payments both on the principal and the interest on the day he assumes that obligation. There is no grace period as there is in the Federal legislation that we are now considering.

Mr. EKEN. No; there is not.

Senator McGOVERN. Do you think it is desirable, as our bill is presently written, to have such a grace period so that the new buyer is not required to make payments on the principal up to the possible 7-year maximum?

Mr. EKEN. Mr. Chairman, yes, I certainly think it is a needed part of legislation. And we looked at that in our Minnesota plan in our discussions. We arrived at the 4-percent figure partly based on cash flow projections that we made, and we felt it did help to the point where we could make this program work.

The other limitation factor, and the primary limitation factor, in the percentage figure we used was the availability of dollars that we have in the State to implement this type of a program.

You know, we find with land prices as they are today that you start talking about a number of transactions, and you are looking at a large dollar figure in a short period of time.

Senator McGOVERN. Well, thank you very much, Representative Eken.

We have a rollcall in progress now.

I do want to thank you for your testimony.

I am going to ask Representative Herseth who comes up next to hold on for a few minutes while I go over and answer the rollcall.

We will recess for about 10 minutes and then pick it up.

I do want to thank you.

[Short recess.]

Senator McGOVERN. The subcommittee will now resume.

Our next witness is a State representative from South Dakota, Mr. Lars Herseth, who is a long-time personal friend of mine and whose father once served as the Governor of our State.

We are happy to welcome you, Representative Herseth.

You may proceed.

STATEMENT OF HON. LARS HERSETH, A SOUTH DAKOTA STATE REPRESENTATIVE, HOUGHTON, S. DAK.

Mr. HERSETH. Thank you, Senator McGOVERN.

Thank you for giving me this opportunity to present some testimony to the subcommittee on the Young Farmers Homestead Act.

I am a member of the South Dakota House of Representatives, and I was a cosponsor of similar legislation in the last session of the South Dakota Legislature, differing only in a few areas and, of course, in some of the financing areas.

I think that today I would like to speak, not only as a representative of Brown County and the South Dakota Legislature, but also as a young farmer here who is experiencing some of the credit needs and the credit crunches we are experiencing in farming in South Dakota.

South Dakota, as you know, is a semiarid area, and it is very difficult to sometimes set up the cash flows that banking and financial institutions need presented to them to see about debt requirement.

I would like to give maybe a little brief summary as to how I financed my entry into agriculture.

My father owned a farm in Brown County, S. Dak., and when he passed away, it set it up in trust. My first year out there, I managed that for the trust simply on a salary. And in about the second year I decided that I would lease the land from the trust.

I acquired my original capital from FmHA on an operating loan so that I could purchase the machinery needed and some of the livestock needed. That sum was not enough because the amount of dollars that I was eligible to receive from FmHA could not adequately stock the place that I was farming. And so then we, of course, went into bank financing intermediate credit, and from then on we started to look at ways that I might sometime own some of that property.

Of course, being that the land was set up in a trust, and I being a member of that trust, could not purchase that land from myself or receive that portion of equity because that is only an expectancy. So I had to pay the going market rate, and I financed that on a contract for deed through the trust, and I borrowed the downpayment money from FmHA.

So what we are looking at is 100 percent borrowed money. I had no equity when I went out there. And 5 years later, there is some equity, but a lot of that comes through appreciation of not only land values, but machinery values and, for a few years, cattle values, but 2 years ago, that turned around in the other direction.

But what it has created is a total debt obligation against every acre that I am farming to a point where in servicing interest and servicing debt principal that there is hardly enough left over to have what we consider a good standard of living in South Dakota and in the United States today, and during years such as we have experienced in the last 2 years, it creates also the crunch of even servicing that principal portion of your debt.

It seems—and I might make this complaint, I guess, against some of our financial institutions—that during our periods of good years where we have experienced good agricultural markets, good weather, favorable weather for raising good crops, that our financial lenders are more than anxious to help you expand and to increase that debt limit. Then when we experience other years, such as we have had in the last 2 years, there is a tendency then, when you are having trouble even paying your operating bills, that they do not care about the expansion of their debt. They no longer envision that at all.

But they also want a reduction of that debt.

In other words, the umbrella is there during the periods of good times, and when the markets turn around and the markets are not favorable, that umbrella is taken away. The demands are not only to meet your interest rate and operating bills, but also at that time they want the principal debt reduction.

I think this is one of the reasons that I was a cosponsor of what we call the South Dakota Young Farmers Homestead Act; that the availability of money is sometimes there through our existing institutions—even though I would like to, of course, see changes in those areas—but what it does to an individual operating debt is get it so high that at periods of bad weather, adverse weather, adverse markets, that he has extended himself so far that then he becomes a risk to his financial lender, and that is the time the most pressure is put on, and that is the time that the individual is most unable to meet those obligations.

So I was very interested in the Secretary of Agriculture's statement from North Dakota in that he felt this piece of legislation should also look not only at the aspect of interest only, but that there should be a subsidy to that interest so that for those first few years that the equity growth of the young farmer involved who would be participating in this act could be of such so that he could exercise his option after 7 years.

Then, also, I think in one other area of the bill I feel personally that 7 years, even with an emergency extension in case there were drought conditions or whatever, is sometimes not adequate. If we look at our past, the original Homestead Act, there were a number of farmers who settled in our part of the country, the Dakotas, and Minnesota, under the original Homestead Act, and some did not continue on that land. And the Government induced others to come there, and this process was maybe a three- or four-time turnover.

I would like to see this bill also go a little bit longer into time. I realize the misgivings that many people have. We ran into them in the legislature in South Dakota about the Government getting into the holding of title on the land.

We have to remember at one time they had title on all of the land, and it was their philosophy that they wanted young people and individual family farmers on that land. And this instrument, the Young Farmers Homestead Act, would be administered with that same thought in mind, that they want to see young farmers on that land, that it is not the idea of the Federal Government to continually own that land, that there is where they can be successful.

But I think only if they go a little further into the area of subsidizing part of the interest for the first few years and also possibly going beyond the 7-year period and perhaps going into two 7-year periods.

I would welcome any questions that you might have as far as my involvement with the South Dakota Act and how it differs from this, or what we experienced there, or my experiences themselves in finding available credit.

Senator McGovern. Well, thank you very much, Mr. Herseth.

Let us begin with that point you touched on at the end, and just give us a brief synopsis of what was involved in the South Dakota proposal, how did it compare with the Federal proposal.

Mr. HERSETH. Well, the South Dakota proposal was fairly close to the Federal proposal. The only differences where that South Dakota set up a period of two 7-year leases with the possibility of a 3-year emergency extension upon each lease which meant that there was a possibility of the State owning that land, owning title to that land, for a period of 20 years.

The repayment was somewhat the same where the lessee, if he took option to purchase the land, would receive 25 percent of equity in that land, and his repayment would be the amount of interest and the amount of taxes and the amount of administration which again was the only feasible way that we could present it to the legislature, and yet myself, I had the guarded opinion that perhaps we did not go far enough in that direction.

In other words, the debt service would maybe be so great on that young lessee that he could not exercise option at the end of 7 years.

Senator MCGOVERN. What kind of strength were you able to muster for that proposal in the South Dakota Legislature?

I do not remember just what support it did register.

Mr. HERSETH. We were soundly defeated on the House floor and we were able to get it out of the committee, of course, with the help of the opposition, and they thought that that would be pretty good to get out on the floor and discuss, and we were in agreement with them.

I think we received about 12 votes short of a majority out of 70 Members of the House of Representatives.

Senator MCGOVERN. Just 12.

It seems to me that is a substantial showing of the first major effort of this kind.

Mr. HERSETH. Yes, it is.

I think most of the opposition that arose, as was stated earlier, was some of the red flags that went up.

You know, farmers are in competition every day, not only among farmers for land, but with the Government for land.

We have a number of projects in South Dakota, as you are well aware, where the Government is buying land for wildlife, for irrigation projects.

I think it was the general feeling of trying to keep the Government from becoming another competitor for additional farm lands. Also, from the aspect of that this could be continual Government ownership of land.

Regardless of what we said or how we tried to reassure the opposition, these were the major charges against that proposal.

I think it was very interesting and indicative that there was nobody that attacked this measure that did not recognize the need of helping young farmers get back on the land.

I think we mentioned that the South Dakota Young Farmers Homestead Act was not just necessarily a bill for South Dakota farmers, but that it was a main street bill because our small towns in South Dakota rely on that farming community and their agricultural economics, and they do not sell groceries to four-wheel drive diesel tractors, nor do they sell shoes to large corporation farmers.

I do not think those people should be penalized, but I think the opportunity and the chance should be given to those young individuals that want to stay on that farm.

Senator McGOVERN. I know you have had a lot of personal discussion with young farmers in the State and elsewhere in the country.

Could you just summarize for us what you see as the principal problem a young person faces these days trying to get started in agriculture?

Some of the witnesses have drawn attention to the fact that about the only way you can do it now is to get an inheritance or through marriage or to, some way, fall heir to a farm.

Could you talk about the average young person who wants to go into farming as a career, wants to own his own farm, what they are up against in the absence of some such legislation?

Mr. HERSETH. Well, I have a number of friends in the Aberdeen area, young people that have entered agriculture in the last few years. There has been one of them that tried it on his own without any assistance from his family. He was not wealthy, did not have any inherited money and, of course, expanded quite heavily when the cattle market was good. And, of course, that bottom fell out of that in 1974, and that pretty well took care of him.

Now, the other young people that I am familiar with in our area have all entered the agricultural field, including myself, through assistance from our parents in one way or another.

Senator McGOVERN. In the absence of that, it would have been very difficult?

Mr. HERSETH. In the absence of that, it would be next to impossible.

The capital required to start farming a viable unit is so high that nobody without some backing somewhere, can go out and borrow \$500,000. That is just about what we are talking about.

Senator McGOVERN. Could you give us just a rough estimate of what the startup costs would be in a viable farm unit?

I do not mean one that is necessarily ideal, but one where you could actually make it, or what we refer to as a viable unit.

In other words, what it would cost to acquire a farm of that size and buy the machinery with the first year's operating costs to get started, the financing of the loan to buy the land, all the things that are involved if you were going to start out a farm operation of your own in which you hold title.

Mr. HERSETH. I would have to say that in our area the very minimum would be in the neighborhood of \$250,000. That would be a very minimum. They would have to run a very, very tight operation.

It could be possible on that amount of money. That is getting higher, of course, every day.

I know a lot of statistics point toward \$500,000. I think that is, of course, much more realistic.

Senator McGOVERN. The question is where you get the \$250,000.

Mr. HERSETH. That is right.

Of course, under the existing opportunities that we have now, it is FmHA, and FmHA to the extent of their ability has done a very fine job. But I think, of course, that their limits are so low that you cannot buy or purchase or start a viable unit with the limits that are under FmHA today. And, of course, FmHA's philosophy today seems to be leaning a little bit more to guarantees than getting actually involved in the lending itself.

Senator McGOVERN. You doubtless heard commissioner Just of North Dakota say that he felt that even in the grace period during which

we forego the payment on principal for up to 7 years that farmers still could not make it with interest rates as high as they are unless there was some kind of subsidy on the interest rate.

What is your evaluation of that suggestion? I think you proposed the Government put in 2 percent of the interest loan for the first 3 years.

Mr. HERSETH. Yes. I think I mentioned earlier in my statement that I was in agreement with that.

I know in our area now land is selling, good farmland, close to the figure that he used, \$400 an acre. That would be approximately \$32 debt service on interest only for that grace period of 7 years.

Now, I am operating on that type of land, and carrying close to that kind of debt, and yet my debt service per acre is not anywhere near \$32 an acre interest, and if it were, I know for a fact I would not be able to make it on an average year. On a good year possibly, yes.

This is why I substantiated his point of view that there should be some subsidy there in the form of taking care of part of that interest.

I do not know if 2 percent is high enough.

Senator MCGOVERN. That becomes all the more acute, I suppose, when you are up against the kind of situation we face this year.

Mr. HERSETH. Yes, and then it is impossible.

Senator MCGOVERN. Well, thank you very much, Mr. Herseeth.

There are other questions I would like to ask you, but we have two remaining witnesses to hear.

We do appreciate your taking the time to give us the benefit of your views.

If you have further thoughts on this, the hearing record will be open for a while. We will be glad to get any additional information you want to file with us.

Mr. HERSETH. Thank you, Mr. Chairman. Thank you for this opportunity.

Senator MCGOVERN. Our next witness is Mr. E. A. Jaenke, who is the president of E. A. Jaenke and Associates, and well known to this committee as the former Governor of the Farm Credit Administration.

We welcome you to the committee.

STATEMENT OF E. A. JAENKE, PRESIDENT, E. A. JAENKE & ASSOCIATES, INC.

Mr. JAENKE. It is a privilege to be here again, and to have a chance to visit with you on a really important subject.

I enjoyed the last witness' specific examples of how this bill and the problem relates to his own operation. I think that it is extremely important that the committee get the benefit of that, in addition to some of the other overall views that some of us might have.

I want to commend you and the other sponsors of the bill in this body, as well as those on the House side, for focusing the public attention on this matter. I think it is a critical one, an important one. The work you, personally, and your staff have done to draft the bill is to be commended. The kind of reaction it has been receiving around the country, I think, is indicative of the great interest, and also that there is a basic economic problem here.

If this were an industry of automobile manufacturing, breadmaking, shipbuilding, or any other industry the people involved with that in-

dustry would be concerned with the growth of their management and employee levels, they would train them and prepare them for more responsible positions.

You would not tolerate a top level management team of 62 or 65 years old, or even 55 years old, unless you had some younger employees being trained in order to assure a successful business operation in the future.

Because agriculture is decentralized, you obviously cannot do this in the same manner you would use in a normal business operation.

Therefore, I think it is extremely important that this committee and agricultural leaders take a good look at this problem.

I have a prepared statement. With your permission I will skim through it and select a few highlights. Then perhaps we can classify additional points.

Senator MCGOVERN. The full statement will be printed.*

Mr. JAENKE. Good, I appreciate that.

There are two basic questions as one considers this matter, studies the comments that have been made, and evaluates this bill that has come forth.

One of those questions is should the Government provide a helping hand in the establishment of a program that would assist young farmers in getting started in this industry?

Then after you pass that particular point, you come to the next question. What is the best way of getting it done?

My testimony will attempt to provide answers to both of those questions.

The very fact that these hearings are being held, and that there is a great deal of interest in these hearings, clearly indicates that there is a problem. Others have cited statistics to verify this.

Even with some improvement in the average age of farm operators in the last 3 or 4 years, with the average dropping slightly to about 50, the fact remains that we are far above the ideal for an industry in terms of the average age for our farm operators. The ideal industry average age would be somewhere in the low or middle forties.

I think the basic credit problems young farmers face has been well documented for this committee by some of the previous staff work you did.

You just heard a witness describe, from his own personal example, the situation that a young farmer faces, and I will not go into that.

I would like to offer some positive suggestions concerning the bill based on the experience we had trying to develop a program in the Farm Credit System.

As presented earlier by one of the deputy governors of Farm Credit in his testimony, the Farm Credit System, with the Commission on Agricultural Credit in 1970, made a major effort to discover how this cooperatively owned farm credit system—could help more young farm families get started in farming.

This would obviously be a nondirect Government involvement in the program. I think all of us would prefer to deal with the problem effectively by helping young people enter agriculture, through private enterprise. That should be the first approach.

*See p. 96 for the prepared statement of Mr. Jaenke.

I think the committee needs to examine that program, and see what that result has been. These are enough examples of young farmers already financed to show it can be done successfully and, while the Farm Credit System has implemented special programs in a few areas, I would submit it cannot completely solve the problem in all cases. From a national standpoint, a great deal remains to be done.

Therefore, there is justification for a special Government program to deal with the problem.

One of the things we did in Farm Credit, which was probably one of the most rewarding experiences that I have had in 20 years of working in agriculture, was hold a Conference of Young Farmers in Indianapolis in 1974.

We asked all of the farm organizations and our Farm Credit Banks out in the country, to find the young farmers and their wives who had come into farming in the last decade, and had made a success of it.

What we were really trying to do was discover what elements contributed to that success. We thought this would be more helpful than studying the failures on the other side.

The group was outstanding. There were over 200, as I recall.

We spent 3 days with them, had them break up into small groups, and let them talk about this. We had some questions to stimulate this discussion.

Out of this meeting came a series of points, some of which I want to allude to briefly in my testimony. I think they can provide some very important guidelines.

One of the first points is do not underfinance. Do not start a person out in any business, but particularly in agriculture, with less than that which he has a reasonable chance of succeeding.

All you would be doing is putting him through 4, 5, or 6 years of torture leading to failure without giving him a reasonable chance and a reasonable start.

A number of these young men said we would rather not have any help if we are only given a halfway program and a halfway approach to financing.

They pointed out several techniques that could be helpful on the part of lenders. Incidentally, in this effort we worked with Farmers Home Administration and they had representatives present. In fact, some were on the program in outlining what FmHA could do.

We worked with both the ABA Rural Affairs Committee and the IBA in terms of trying to bring in the other major lenders.

We invited insurance companies. They chose not to attend at this particular conference, but the ABA and IBA did. After our meeting, and after Farm Credit had digested the information obtained from the meeting and was ready to move into some new programs, we met with both the ABA and IBA and their agriculture committees. We reported what we had in mind, and got some inputs from them in an effort to try to bring all of the lending institutions from the private sector to bear on this particular problem.

The young farmers in our group said,

We need counseling help, we need management help. Do not just give us capital or the credit tools and turn us loose. We are cocky, and we think we are going to succeed, but we also realize that we can use some management help.

They strongly urged in the case of the Farm Credit System that any program developed be designed to coordinate the financing provided by the PCA's—the short term operating lenders—with the land bank associations—the long term lenders—this would prevent the long term lenders from doing one thing and the short term lenders another.

They suggested a number of credit techniques. I guess the best word for them would be deferred payments.

I can remember one young farmer from a Western State, who was involved in a cow-calf operation and he indicated that with the biological nature of his business, that it would be 3 or 4 years before he could hope to have a product to market. Clearly he needed some sort of a deferred payment schedule.

If there is a willingness to try these techniques, there is a whole host of techniques that could be worked out to keep a loan flexible enough and still stay within the bounds of sound credit operations.

Let me continue by pointing out several suggestions that I would like to make to the committee. Perhaps other witnesses have covered these points, so I will not go into them in great detail.

I think the bill needs to have a clear definition as to who is eligible.

We would urge, very strongly, that potential management ability—and I know that is very difficult to measure—be one criteria. However, in some cases, management experience, knowledge of agriculture, and training in agriculture, can point to a real potential for success, and it can be measured. It needs to be put in as one of the criteria. I think the administrators of this program can handle this.

I think we need to keep in mind, and this is going to be dangerous and difficult perhaps, particularly in an election year of this nature, that this program ought not be a program to help and to make credit available to anyone who thinks he would like to farm.

The program will fail if put on this basis. We must make sure that through the eligibility requirements, and through the administration of the program, that loans go only to the people who have a long term potential for success in agriculture.

Incidentally, Senator, on that point, one of the indexes of success that we found relates to the wife. The ratio, or the percentage of success was greater if a young man had a wife who was willing to help and was dedicated to the farming operation and to the life in rural America. The degree to which she was willing to put up with some sacrifices or problems was important.

Whether we like it or not, rural education facilities are not up to par. Health facilities are not up to par. There is some absence of social life that can occur there.

In many kinds of agriculture the demands are great, farm couples see other people taking off for long weekends at the lakes, and so forth, and they cannot do it.

I think along with this, if we are really going to make an effort to maintain a proper balance and a long range, strong position in one of the most productive segments of our economy, we need to bring these other educational and health opportunities up to par.

In any event, we met with a number of the wives that come, and they were true partners. It was not the farmer and then his wife. They were partners in the business operation.

In most cases, the wives knew more about the numbers. Being involved with a lending institution, we were looking at numbers, and the wives knew more about the specific operations of that farm, the debt load, and so forth, in many cases than the farmer did. They were more up to date on those numbers.

Obviously, that is very important.

Senator MCGOVERN. Is that not a strong argument for the movement on this tax legislation, to give the wives credit?

Mr. JÄENKE. Yes.

The estate tax question is, of course, one of the key ones.

Let us take a fairly typical example, or it could be a fairly typical example of a father farm operator with three children, three sons, or they could be daughters, either one, but let us take sons, for example, here.

If we could take care of the estate tax problem, the opportunities for him to pass this operation on to one of those three sons would be much greater than it is right now. There are some real problems with the very, very outdated estate tax provisions. But, in any event, son No. 2, or No. 3, who may have just as strong a desire to farm as son No. 1, and may have just as much potential for success, has learned the business, has been involved in FmHA, college of agriculture work, or business training, or other areas does not have a chance. Very rarely, unless the farmer is extremely well off, is the farmer able to set up more than one operation.

You heard the \$400,000 figure. I think that is probably, for most areas of agriculture a very minimum figure. You must include in the loan the initial cost of the land, and the operating costs, and living expenses for at least the first year, until they can realize some return.

Well, the eligibility question needs to be decided. Age is an important consideration, along with education, experience and management potential. These are very critical things. I am sure other witnesses touched on it.

I would ask the committee to take a hard look at the \$200,000 limitation.

Based on studies I have seen, I think \$200,000 is probably an unrealistically low figure in terms of the needs we are likely to face in the rest of this decade and in the decade ahead.

By this I do not mean the administrators ought to be in a position of going out and setting everybody up on that kind of an operation. Certainly there are kinds of farm operations where you can get started with less.

Perhaps we need some language that takes off that specific limit, or raises it rather significantly, and then stresses the need to match the young farmer with the smallest appropriate economic unit. Perhaps we need to consider the individual's financial and personal circumstances, and provide him a unit that will give him a reasonable chance of earning a decent standard of living.

The last thing I think anyone wants to do is to devise a program that will perpetuate a below average standard of living for people, and then lock them into it. We do not want to lock them in at a poverty level.

If they are willing to work, and make a good try of it, let us give them the proper start.

Some of the questions have to go with inflation and land speculation, which I think are built into the bill, and they are realistic.

Anyone that thinks we are not going to have a degree of significant land inflation in the future, is failing to be very realistic about it. Of course, the whole concept of this proposal is predicated on that occurring. Whether it is going to be 14, 15, 18, or 20 percent, I do not know.

Senator MCGOVERN. You are saying that a certain amount of inflationary pressure is inevitable, whether this bill passes or not?

Mr. JAENKE. Absolutely.

Senator MCGOVERN. That is one of the criticisms that has been leveled at the bill, by bringing the Government into the buying field and the purchasing field, you add to the inflationary pressure.

Mr. JAENKE. I think that is a fictitious argument.

The amount of competition that is likely to be generated as a result of this legislation, even if taken just as it is written right now, would be such a small portion of the total land inflation pressures when it is compared to all the other factors that are causing land inflation, and general inflation. I think it is a specious argument.

Even assuming the ideal of the 3 percent of the total economy inflation rate, I think there are several factors which are going to cause land inflation rates to be in excess of that by a considerable amount.

Sure, there is going to be some additional amount. If we are sitting in one county out there and a corporation comes in to try to buy some land to establish a young farmer, and obviously there is going to be some bullish effect of that extra bidding.

However, it is so minimal compared to other factors in recent years, that I do not think it is worthy of a good deal of discussion.

Senator MCGOVERN. Is it not also based on an assumption that there are not available buyers for the land, and when packages of land go on the market, they are rather quickly snapped up by somebody?

It may not be a family farmer, but someone else who is ready to buy the land.

Several years ago I had thought that maybe, just as a means of demonstrating my own interest in agriculture in our State, I would buy a small farm. I found out very quickly that is not a very popular thing to do, because there are buyers eager to acquire land.

The particular one I was looking at, which I passed up because of the reason I have just suggested here, was bought by a couple of doctors.

So that, even if we did not have this kind of program, there would be somebody there buying that land for speculative purposes, or buying it as a hedge against inflation, or for some reason.

Is that not true?

Mr. JAENKE. Absolutely.

I think it is. I think the evidence shows that.

You have several factors coming in here.

No. 1, is the discussion—and I think realistic discussion—of a new situation in the world in terms of our food supply, the balance of food, and the growing number of people in this world in the future; is helping raise land prices. Based on some studies we did for the Office of Technology and Assessment, we foresee this strong demand in the food sector continuing, with some ups and downs, depending on weather conditions and crop years, and so forth.

Much has been written about this. It has caused a renewed interest in land on the part of investors, because they recognize land is a limited resource, and a dwindling resource, because of other uses of it. Investors are moving in to buy farmland.

Again, I think we must say there is some competitive and inflationary impact with a program such as this. But again, putting it in proportion to the inflation rates that are caused by other factors not related to this bill, it is a very, very small part of it.

I think the bill perhaps could address itself to the operating capital question also. I do not know how Congress would legislate and say to private banks, or PCA's, that they have to lend money. But I do not think it is really necessary.

I think the administrators of this program should, and could work very closely with private lenders.

I would guess that a PCA, looking at an operating loan to a young farmer, coming in under this program—knowing that he has gone through a very careful selection process and that he should be the cream of the crop—would be more willing to extend operating capital to him as a result of his coming under this program, than they would to someone else. That is certainly a key aspect of the situation.

My last point, and I noticed one or two witnesses commented on it, and I think it is common knowledge among people in the organization, and the rest of us, is that the Farmers Home Administration is a very undermanned organization now. They have received from you in Congress, and from the executive branch, new programs to administer, these are good programs—water and sewer programs and some other farm programs—but they do not have the manpower, quite frankly, to properly cover all these programs.

One of the areas in which I was privileged to work as Governor of Farm Credit, was in a joint loan program, where the Farm Credit System—the land bank—would make a 40- or 50- or 60-percent loan on a farm. We could not go further in dealing with other farmers' money as a credit cooperative. The FmHA picked up 20 percent, and the fellow had to come up with the downpayment.

This went very, very well. It eliminated the traditional gap that people always talk about in lending for agriculture.

I worked with that. We found excellent people in Farmers Home Administration—very competent and very able. But the poor souls were just snowed under with additional programs, and additional responsibilities, with new, difficult programs, and not enough administrative funds to hire enough employees.

If we are going ahead with this kind of a program, let us make sure that the program is adequately staffed with top people to do the selection process, to develop the loan program, to make sure they can minimize the inflationary aspects, and so forth.

Senator McGOVERN. Do you think with proper staffing the FmHA is the appropriate agency to administer the eligibility tests on this program?

Mr. JAENKE. I think they could.

I am inclined to believe that the separate organization would be better able to handle this. It is a basic principle of management that you keep all responsibility under one central head, and you have set up an organization to do this.

Senator McGOVERN. You find nothing wrong with the management structure in the bill?

Mr. JAENKE. No, I do not.

Let me come to one last point. It is a political and philosophical point on which I would like to share some thoughts.

There will be political or philosophical charges that this legislation pushes the Government into direct competition with private land purchases. It does, but so have many other Government programs, where a public purpose was paramount.

Both the Congress and the executive have authorized Government agencies to purchase large tracts of urban slums for redevelopment, in direct competition with other buyers, in the direct free market, so to speak.

The Tennessee Valley Authority was a clear Government intrusion into the private power market of land purchases and power development at that time.

The Commodity Credit Corporation is into the market, and there are just hundreds of other examples where when a public purpose has been deemed to be important enough that the Congress and the executive branch, over the last 40 to 50 years, have moved into the market for strategic materials.

At various times in our history in establishing strategic materials stockpiles, the Government deliberately went into the marketplace and competed against other private buyers.

In all these cases, and many others not cited here, the public benefits were deemed sufficient to warrant such public action.

All would agree that the assurance of an adequate national food supply is of highest public concern.

History shows that a family farm business structure is the most efficient way to obtain that food abundance.

Therefore, Mr. Chairman, it seems to me there is justification for a Government sponsored program to assist in preserving a viable family farm system.

I would be happy to respond to any questions.

Senator MCGOVERN. Thank you very much, Mr. Jaenke.

We appreciate you responding to some of the questions I have raised as you have gone along.

There is one other point I wanted to draw attention to.

I noticed you, in contrast to some of the other witnesses, stressed the importance of not underfinancing farmers.

We have had some warnings from the other side that this program may hold out the possibility that we are bringing people into agriculture with a debt load they will never get out from under.

I take it that as a person of longtime experience in this field you have seen it work the other way.

Mr. JAENKE. I think you have to be realistic about this. You have to consider both sides of the situation.

I would guess that in the entire period, 51½ years, that I was Governor of Farm Credit, there were very few instances of land loans being made to farmers, that you could justify making that loan, by figuring it out with a pencil and a piece of paper, at the anticipated price levels, without counting on inflation of land values.

That is the name of the game in agriculture, and why should it be different than in industry?

General Motors, with its \$40 million loan, or \$100 million, or whatever it is, does not worry about a deadline, and only getting it on the basis of repayment. They roll it over.

I grew up with the old idea, coming from a German family that debt was terrible. You pay off a loan as fast as you can. That was taught to me from that time on up.

That idea is not realistic in modern day agriculture, if we are going to continue with the family farm, and particularly if we are going to ask young couples to step into this industry, to participate and contribute to it in the years ahead.

I would be more concerned with putting a man and his family into a marginal, or submarginal standard of living, where they did not have the same opportunities others do, in raising their family, educating their children, and doing other things like that. It would be tragic.

I think that we in Government, or the Government, should not be in a position of underfinancing, or putting a young couple into nearly 30 years of semipoverty.

I think we would be doing them a disfavor. I would rather leave it on the other side.

Senator McGOVERN. So a major criteria should be that that unit be a viable one insofar as we can determine what constitutes a viable unit.

Mr. JAENKE. I think we know that, though. The experience and the knowledge is available on this one.

But again I come back to this selection process. There could be a natural tendency in the decade and years ahead for a lot of people who want to go into farming with a very low potential for success in agriculture. They may want to get into it just because they want to escape the smog and other urban problems. They should be eliminated in the selection process.

I think in the eligibility requirements we need to be very hard-headed. We need to make sure applicants go through a very tight selection process, and that they are screened as best as we can.

You have to leave this to the Administrator. You have to make the intent as strong as you can in the law, and with some oversight, make sure the Administrator is carrying it out.

Senator McGOVERN. Well, if we get this bill passed into law, you would be one of the people we would like to consult with as to how to set it up.

Mr. JAENKE. I will be happy to help out, Mr. Chairman.

Senator McGOVERN. Thank you.

Our final witness is Mr. Jim McHale, who sat through 2 days of these hearings, and he is now the special assistant for rural development, Office of Governor Milton Shapp, Commonwealth of Pennsylvania, and formerly secretary of agriculture of Pennsylvania.

Mr. McHale, I am happy to welcome you back to the committee.

STATEMENT OF JAMES A. McHALE, SPECIAL ASSISTANT FOR RURAL DEVELOPMENT, OFFICE OF GOV. MILTON SHAPP, COMMONWEALTH OF PENNSYLVANIA, HARRISBURG, PA.

Mr. McHALE. Thank you, Senator.

I would like to congratulate you for your farsightedness and concern for the family farmers, and for introducing the Farmers Homestead Act.

I am also appearing as a board member of Rural America, Incorporated, a national nonprofit corporation that is concerned about the rights and policy directions for rural people, and for the preservation of the family farm.

We spend an awful lot of time, talking about the problems. I think it is time we really gear up on some concentrated action.

I understand the problems. The main problems are the present policies of USDA. Their support of factories in the field, and their parrot like economists that have a four-word approach to the agricultural policies. The words are free enterprise, and supply and demand.

The USDA's policy direction was pretty well spelled out by the young executives committee study in May 1972, when they said:

Agriculture policy should be directed toward maintaining agriculture as a viable industry, and not as a way of life. The number of farms, or farm population size is irrelevant, except as these influence performance on the agricultural industry.

It goes far beyond that. Even in their own studies, USDA has pointed out that bigger is better is wrong. USDA studies indicate that a farm with a work force of 1½ workers per year is large enough to achieve maximum efficiency in production.

When we start talking about this bill today, Senator, I think we are also really talking about land policy. We have had a lot of efforts at the State and Federal level. There have been reams and stacks of material, and plans written.

We really need a strong commitment now at the national level on land use policies.

I am a little bit confused. I live in a country where we have had our CIA, and other espionage agencies, busy around the world, preaching land reform.

I remember after World War II General MacArthur was busy in Japan buying and from large landowners and the Emperor, and selling to family farmers, and setting up cooperatives.

Yet, in this country we are still at the point where we are arguing whether we should even be involved.

We have been involved over the years, with the Reclamation Act, and the Homestead Act, and I think it is public policy. I think probably some of those things should be explored.

Some of the problem also goes back to the idea of cheap food policies we have had since 1952.

If we are going to ask farmers to go all out in food production we are going to have to also adapt with farm programs, and food policies to assure farmers income enough to survive.

This treadmill that we are all on just does not make any sense at all.

We are at the point where we need to talk about who is going to control the land in this Nation.

I would like to insert in the record this Rural America publication, page 4, that talks about who owns the land. It talks about Standard Oil of Indiana owning 20.3 million acres, and on down the line.

The question is whether the people own it, or the corporations, and who should own it.

Who owns New York City? Who owns Maine? Well, I read the other day we have 13 landowners that own over half the State of Maine.

We have 25 landowners that own half of California, and Southern Pacific Railroad owns 5 percent of the private land in that State.

Yet we have the sunshine boys in USDA saying that corporate farming is not a threat in the United States.

We need to know how much of our food supply is controlled by corporate vertical and horizontal integration.

The first step toward establishing land-use policy to help the young farmer is for Congress to pick up the powers vested in them in our Constitution, and enforce the laws of the land, the basic concept of the Homestead Act and the 160-acre limitation in the Reclamation Act of 1902.

I would also like to have you note in this publication "The \$2 Billion Giveaway"* in the Westlands Waters project. I think that is a good place for us to start to talk about tying together some action programs with the Young Farmers Homestead Act.

The Reclamation Act of 1902 pointed out, and said that land was supposed to go to private landowners that live on the land.

Why do we not capitalize that land there, break that up into family farms?

We should have the control of that land, and I think we have lots of other ways we could do it, as well.

I would like to suggest a possible amendment to the bill, to provide a way to involve the States more directly in implementing the Young Farmers Homestead Act.

In the State of Pennsylvania we own about one-fourth of the State. We have welfare farms. We have county farms. We have State-owned forest lands. The Fish and Game Commission controls thousands of acres of State-owned land.

If we were to set that land up on the Commonwealth's books as an asset, we could easily provide the equity capital for a land transfer bank or a homestead corporation. We could then charge 1 percent on all real estate transactions to help maintain the capital for our land transfer bank. The land transfer bank could then sell good farmland with a restricted title that would prohibit the transfer of land for any purpose other than for family farming. This would immediately fix the land price in relationship to the income received from agricultural production.

I would like to expand on the State plan in your question period and I would like to also have inserted in the record "Toward a Platform for Rural America," pages 23 to 26.

Senator McGOVERN. Both the references will be included in the record.**

Mr. McHALE. That concludes my statement.

I did ramble quite a lot from what I had originally written, but as I listened here, I thought we had to come up with some direct proposals, and I think it is long overdue.

Senator McGOVERN. Thank you, Mr. McHale.

*See p. 102.

**See p. 99.

You have heard here the last couple of days some of the suggestions that have been made for strengthening the bill, or modifying it.

I would be interested in your comments as a former secretary of agriculture in Pennsylvania, and one who has traveled quite a bit around the country.

One proposal is that the 7-year grace period is not adequate. I think it was Representative Herseth who suggested we might consider extending the period, that it would be difficult for some farmers to begin making full payments on the principal interest in that brief timespan.

I would be interested in your reaction to that.

Mr. McHALE. I would certainly be in favor of liberalizing, as far as we can go.

I could go on about my personal experiences as a farmer myself, and those of my neighbors, and as to what has happened to our rural communities.

A young man would have to have at least 7 years, I would say, without paying anything on the principal, and very little interest, or rent, or whatever, because he is going to have to be financed for his farming operation costs probably by a short term loan by FmHA, and that is going to have him pretty well crippled to begin with.

Senator McGOVERN. Minnesota's State plan has a Government subsidy now on the interest payment.

Mr. McHALE. I heard the Minnesota plan this morning.

Senator McGOVERN. So they made a 4-percent contribution.

Commissioner Just of North Dakota suggested a 2-percent subsidy at least for the first 3 years of the program.

Without getting into the specifics, do you think something of that kind would be necessary to relieve some of the repayment burden?

Mr. McHALE. I very definitely think so.

I was a little bit disappointed in the Minnesota plan this morning. I thought it went a little further than that, because if they are only going to subsidize 4 percent of the interest, and amortize it to begin with over 20 years, it is not going to give the help that is needed for these young farmers. It is not good enough.

Senator McGOVERN. Mr. Jaenke has questioned the \$200,000 limit on the bill. I think that was one of the points he raised.

As far as Pennsylvania is concerned, would that exclude a great many of the young people that want to get into agriculture, limiting the benefits of this program to a \$200,000 unit?

Mr. McHALE. I think really, with the right management, \$200,000 would pay for a farm in Pennsylvania large enough, and it was pointed out yesterday the possibility of the different kinds of land to buy.

We do have Lancaster County land, where the \$200,000 would not buy a very large farm. But there are areas in Pennsylvania where you can buy agricultural land for that.

I think \$200,000 would be adequate in Pennsylvania, provided we have the short-term money available through FmHA.

Senator McGOVERN. You do not have the size farms we do out in our part of the country.

Mr. McHALE. That is true. Pennsylvania farms average 150-200 acres.

Senator McGOVERN. Did you hear Mr. Jaenke make the point that the bill needs more specific definition of eligibility, closer screening

of applicants, and tougher guidelines as to who would be eligible for the program?

Mr. McHALE. I think that is essential, but I think a lot of the details could be taken care of in regulations.

I do not think we have to spell out every last detail in the bill. I think probably when we get to the point of loaning, there would be enough amendments.

Senator MCGOVERN. I know in the Saskatchewan experience they screened the applicants very carefully. They have a board that reviews every one of them.

My recollection is they now have 1,400 or 1,500 people participating in the program, and the indicated success is rather high. They are quite optimistic about the success of that effort.

Mr. McHALE. Senator, there should be some way we can tie back the States into this legislation?

I suggest a relationship between the Federal Government and the States. The States should be encouraged to set up their land transfer banks. A Federal land transfer fund or bank could serve as the central funding agency for selling the State transfer fund papers.

Does that make sense to you?

Senator MCGOVERN. Well, it is something that I think we should think about.

As I indicated at the opening of the hearing, we do not see this legislation in final form as it is now drafted. There was considerable thought that went into the drafting of the measure, but I am confident as we move along there will be some modifications, and some changes.

So all of these suggestions that have been made, including that one, are ones we will look at.

Mr. McHALE. Well, does it make more sense to go ahead and force the laws of the land through the Westlands project, or set a corporation up there to capitalize your bank? Does that make sense?

Senator MCGOVERN. Well, I would not be prepared to answer that.

Mr. McHALE. There is a lot of material available on that. It is quite a hot issue in the Farmers Union.

The Farmers Union is quite well informed on it.

Senator MCGOVERN. Well, we do want to thank you, Mr. McHale.

I want to say to you, and to all of the witnesses, and any others who have not had an opportunity to be heard, that we will keep the hearing record open for the next 2 weeks, so that if you have additional material you want to file with us, it will be possible to include that in the record.

I believe that completes our scheduled list of witnesses.

The subcommittee will stand adjourned.

[Whereupon, at 11:45 a.m., the subcommittee adjourned, subject to call of the Chair.]

ADDITIONAL STATEMENTS AND MATERIAL CONCERNING S. 2589

STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

I am pleased today to open hearings on a bill which in a relatively short time has gained widespread interest and has a sizable constituency throughout the agricultural community of the Nation—the Young Farmers Homestead Act. It is cosponsored by seventeen of my colleagues in the Senate and has been introduced by a number of Members in the House of Representatives.

During the entire span of my public life, I have talked to young men and their wives about the problems they were having in obtaining sufficient credit to buy land.

This problem of preserving and enlarging credit lines for land acquisition is possibly the most important question facing the family farm in the last quarter of this century. If we fail to respond to this need we will make the family farm a museum piece by the year 2000.

There is not one of us who does not know of the inroads corporations (agribusiness oriented or otherwise) are making in acquiring tillable acres. There is not one of us who does not view with alarm growing tendencies of vertical integration in the food chain. But, how many of us are willing to break new ground in the conventional concepts of agricultural credit?

The time has come to ask hard questions of ourselves, to seriously evaluate our dedication to traditional concepts of rural life, if in fact we intend to give more than lip service to them and to open new ground where past experience is clearly inadequate.

Commercial banks, the Farm Credit Administration and the Federal land bank system have been the very life blood of our rural community since days of early settlement. They are a fraternity to whom we shall be forever grateful and to whom thousands of farmers owe their very lives. For those reasons we have asked them to join with us in seeking solutions to new problems. I am grateful to them for their willingness to appear as witnesses and share with us their own responsiveness to the needs they recognize.

As an official member of this committee, I travelled last fall to the nearby Province of Saskatchewan to examine a program they were operating to encourage young farmers and to assist them in maintaining a continuity of occupancy of a tract of land from one generation to the next.

Though the Canadian experiment is based on a number of factors that may not be compatible with our concept of land tenure, I did find sufficient merit in the program to start thinking of ways its best features could be implemented in America.

The experience in itself made me resolve to redouble my own efforts to try to come up with some innovative responses to those young farmers to whom I had in the past only been able to offer encouragement and best wishes. Thus, on October 30th of last year, I introduced the Young Farmers Homestead Act. It was viewed with enthusiasm in most circles and coolness in others. It did in all circles provide the forum for which it was intended—to create a national dialogue on a pressing national issue.

I want all to understand that I do not view the proposal I have made to be inviolate; difficult problems demand extended scrutiny, expert evaluation and careful analysis. We are here today for that purpose, we meet in that spirit, and we unite in that concern. To those who say there is no problem or to those who say methods of the past can continue to furnish us with a secure future, I say we must all accept our share of the responsibility for the future of the U.S. family farm. To those who want to tread new ground, I say "welcome." Let us solve new problems in the manner those who went before us rose to meet new challenges.

My office has received over a thousand letters endorsing the legislation and we have distributed over 8,000 reprints from the Congressional Record at the time the bill was introduced.

As I have traveled about the country I am often surprised to be asked as many questions about this bill as I am, say, the situation in the Middle East.

Numerous publications have written and editorialized on the act. For purposes of the record, I submit these articles of support and comment and request that they be printed as part of the proceedings of these hearings.

Prior to hearing testimony let me announce that the Independent Bankers Association has expressed a willingness to testify but, unfortunately, its leadership is engaged in a week-long conference elsewhere on some of the same problems we are discussing here today.

For that reason I ask that the record of these hearings be kept open for a period of two weeks so that groups and others who wish to file statements will have the opportunity to do so.

LETTER FROM WASHINGTON

(By Senator George McGovern)

Continuing my long-standing concern over the preservation of the Family Farm and as the Chairman of the Subcommittee on Agricultural Credit and Rural Electrification, which first considers all legislation relating to financial assistance and credit to farmers and ranchers, I am devoting this newsletter to discussing my thoughts with you on the future of new young farmers of the United States.

I have spoken for some time about the need for expanded credit to encourage young farmers to enter farming as a profession and the nearly insurmountable obstacles facing a young man who seeks to own and operate a farm or ranch as a family farm unit.

In these days of high land values, expensive machinery, high petroleum and operating costs it is simply impossible for potential young farmers to face up to conventional credit concepts of incurring sizeable indebtedness for the twofold necessities of 1) land acquisition and 2) operating capital. Indeed, some economists estimate start-up costs for a young farmer on an economic unit to be as high as \$250,000. As a result, only the sons of well-to-do farmers can ever hope to adopt farming and ranching as a career.

Today, the average age of an American farmer is 50.3 years and projections show farm unit numbers declining by 200,000 to 400,000 over the next 20 years. One USDA study forecasts the possibility of there being fewer than one million farms by the turn of the next century.

These discouraging figures have led me to conclude that it is now time to completely re-examine our traditional concepts of farm credit as well as land tenure.

Commercial rural banks, the Farm Credit Administration, and the Farmers Home Administration have been the backbone of our farm credit system for several generations but in the light of today's prices and capital needs, the resources will be strained severely even without new responsibilities and challenges.

Lest anyone misunderstand me, let me state clearly that I in no way suggest the abolishment of these important lines of credit. What I do suggest is that we closely examine supplements to them aimed specifically at relieving a young farmer for at least a period of time from the initial long-term obligation he must enter into to acquire title to an economic farm or ranch unit which will allow him to make a respectable living. This requires new, imaginative and innovative thinking which will retain traditional concepts of farm ownership and at the same time make it possible for a new generation of young farmers to enter agriculture as a profession and preserve the family farm concept for even future generations to enjoy.

Most of the legislation referred to my Subcommittee merely amends the Consolidated Farm and Rural Development Act to allow the government to increase the dollar amount farmers can borrow to put them further in debt, and to a degree, to extend their economic bondage to greater dollar limits. To me this serves only a limited function and not a particularly desirable one at that.

I am preparing legislation for introduction soon which I have named "The Young Farmers' Homestead Act of 1975." The genesis for the legislation is a

bold experiment started several years ago in the Canadian Province of Saskatchewan.

Though this experiment goes much further in the field of government ownership of farm land than I am prepared to accept, I have determined that some of its basic innovations are worthy of further examination in an effort to cushion the original credit jolt a young farmer sustains to get in business.

The thrust of the legislation I am preparing would create within the USDA a Federal Farm Assistance Corporation which could purchase family-sized farm and ranch units on the market at prices no higher than appraisals made by the FmHA. It would, in turn, lease the unit to qualified young farmers for terms of 5 to 7 years for cash rent computed at real estate taxes plus the interest carrying charges of acquiring the property. At the end of the lease period, the corporation would hope to sell the unit to the young farmer (who during this period would receive operating loans from the FmHA) on a 20-year term during which he would be required to repay one half the purchase price plus interest and taxes.

At the end of 20 years, the borrower would be required to refinance the balance of the debt through normal commercial channels. The legislation would require no outlay of federal dollars since the Corporation would borrow from the Treasury at prevailing government rates.

It thus becomes clear that what I propose is to provide a federally sponsored vehicle by which the beginning farmer is relieved at least in his beginning years from an overwhelming land acquisition debt, can begin farming with a manageable operating loan, and look forward to eventual ownership of his unit and start paying for it at a time when he has a good start in his life as a farmer.

The Canadian program differs from my proposal in many important respects—it aims for near lifetime leases with little incentive or requirement for purchase but it is still an important concept and today has acquired over a half million acres of land with about 1,400 potential young lease-purchasers.

I consider the experiment important enough to investigate it personally. I plan to visit Saskatchewan and its Provincial capital of Regina on October 16 and 17 to interview officials and participants. From this trip I hope to gain valuable information prior to the introduction of my legislation. Senator Abourezk also has a long and abiding interest in the matters I have discussed. We have talked about these problems many times and we have spent a good bit of time discussing the Canadian program and what we consider its merits and its shortcomings. His schedule prevents him from joining me on the Canadian trip but he shares my concern on the farm credit problems and has had most constructive input into the legislation I have mentioned.

I have welcomed his suggestions and we propose to join efforts in securing passage of the bill we propose to introduce jointly.

[Reprint from the Congressional Record, Dec. 1, 1975]

CREDIT FOR YOUNG FARMERS

Mr. MCGOVERN. Mr. President, on October 30, 1975, I, together with a number of my colleagues, introduced the Young Farmers Homestead Act of 1975. It has brought a spontaneous and positive reaction not only from my State but from many other States in the Midwest.

Quite coincidentally, the National Association of State Departments of Agriculture wrote to me on November 11, 1975, enclosing a copy of a resolution adopted earlier on October 9, 1975, at its annual meeting in Charleston, W. Va. Since the resolution in principle closely resembles the aims of the legislation I introduced, I ask unanimous consent that the text of the letter from the association's executive vice president, J. B. Grant; and the position of the association on family farms be printed in the record.

There being no objection, the material was ordered to be printed in the Record, as follows:

THE NATIONAL ASSOCIATION OF
STATE DEPARTMENTS OF AGRICULTURE,
Washington, D.C., November 11, 1975.

Hon. GEORGE MCGOVERN,
*Dirksen Senate Office Building,
Washington, D.C.*

DEAR SENATOR MCGOVERN: Enclosed is a policy position which we adopted at our recent annual meeting. The subject matter of this position will be of interest to you.

We would like to have your comments and/or suggestions regarding the implementation of this resolution.

Yours very truly,

J. B. GRANT.

Enclosure.

FAMILY FARM

The family farm is in the best interest, socially and economically, of the United States. The continuation of family farms is in jeopardy because it is becoming increasingly difficult for young people to replace retiring farmers. Young farmers are vital if the family farm is to continue in existence.

Many of the problems encountered by young people trying to start farming are financial. They have difficulty obtaining sufficient financing; and secondly, if they do secure financing, they are usually so deeply in debt that they are highly vulnerable to foreclosure if they suffer crop failures, livestock losses or very low prices during their first few years of farming.

Resolved, that the National Association of State Departments of Agriculture in convention at Charleston, West Virginia, October 9, 1975, does hereby call on the Congress of the United States to make more liberal credit available to beginning farmers; and to institute a system for postponing principal payments during the first five years of operation if a beginning farmer is unable to make the principal payment because of crop failure, livestock losses or very low prices.

[Reprint from the Congressional Record, Dec. 5, 1975]

EDITORIAL SUPPORT FOR YOUNG FARMERS HOMESTEAD ACT

Mr. MCGOVERN, Mr. President, the unusually able and perceptive Secretary of Agriculture for the State of Pennsylvania, Jim McHale, points out the problems facing young farmers in an article entitled "Sky High Costs Forces Young Off Farm" in the October 31, 1975, edition of the New Castle Pennsylvania News. Included in his analysis are generous references to legislation I have introduced in the Congress to cope with the credit problems facing young farmers. For these words of encouragement, I am grateful.

As an item of interest to cosponsors of my legislation as well as for the information of other Senators, I ask unanimous consent that the article I have referred to be printed in the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

SKY-HIGH COSTS FORCES YOUNG OFF THE FARM

(By James A. McHale)

The energy boys in Washington have won their battle on removing natural gas price controls. This means farming becomes an even more expensive enterprise.

Farming is not an occupation for young men. Today, the average age of an American farmer is 50.3 years.

Why? Aren't there young men interested in farming? Sure there are, but the start-up costs for a young farmer on an economical farm unit is estimated to be as high as \$250,000.

With natural gas prices free to float upwards because a handful of companies will agree not to cut each other on prices, start-up costs for young farmers will go even higher.

At this rate only the sons of well-to-do farmers can ever hope to adopt farming and ranching as a career. Farm units are expected to decline by 200,000 to 400,000 over the next 20 years, and the U.S. Department of Agriculture (USDA) has estimated that by the turn of the century there will be fewer than one million farms in this country.

I regard farming as a basic occupation in this country. Anyone with an interest and talent in farming should be reasonably able to take up this occupation.

What can we do? Of course, we can and should confront and control the forces that are continually pushing up farm production costs. Energy is a big cost aid we can try to bring some competitive pricing into that industry or begin to consider a less energy-dependent agriculture.

We can also rethink our methods of financing young, potential farmers.

South Dakota Senators George McGovern and James Abourezk have been doing some thinking on this. The result is that the two senators are about to introduce legislation that is named "The Young Farmers' Homestead Act of 1975."

As McGovern explains it, the genesis for his legislation is an experiment started several years ago in the Canadian Province of Saskatchewan. While not accepting the extent of government ownership involved in the experiment, McGovern sees some innovations that are worthwhile in cushioning the original credit jolt a young farmer sustains to get in business.

McGovern's legislation provides for the creation within USDA of a Federal Farm Assistance Corporation which could purchase family-sized farm and ranch units on the market at prices no higher than appraisals made by the Federal Home Administration.

This corporation then would lease the unit to qualified young farmers for terms of five to seven years. Rent during this period would be computed at real estate taxes plus the interest carrying charges of acquiring the property. At the end of the lease period, the corporation hopefully would sell the unit to the farmer on a 20-year term during which he would be required to repay half the purchase price plus interest and taxes.

At the end of 20 years, the borrower would be required to refinance the balance of the debt through normal commercial channels. McGovern contends his legislation would require no outlay of federal dollars since the corporation would borrow from the treasury at prevailing government rates.

McGovern's legislation differs from the Canadian experiment in that leases are aimed for nearly a lifetime in Saskatchewan.

The important point to consider about McGovern's legislation is that it seeks to relieve the farmer from an overwhelming land acquisition debt in his beginning years. He can begin farming with a manageable operating loan and start paying off his farm after he has had a good start as a farmer.

McGovern's bill bears watching when it is introduced. There are similar plans already at work in this country. New York's Suffolk County for the past few years has been buying land to lease to farmers. The motive here was to save good farmland from the developers' bulldozer. McGovern's legislation, if passed, would be the first attempt at government partnership in farming on a federal level.

[Reprint from the Congressional Record, Dec. 10, 1975]

YOUNG FARMERS HOMESTEAD ACT

Mr. MCGOVERN. Mr. President, continued support in the press appears for the Young Farmers Homestead Act of 1975 which I introduced on October 30 of this year. For the information of cosponsors and other Senators, I ask unanimous consent that a November 4, 1975, article entitled "Bill Would Help Farmers Get Started" appearing in the Levittown, Pa., Bucks County Courier, authored by Walter Pitzonka, Jr., be printed in the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

BILL WOULD HELP FARMERS GET STARTED

(By Walter Pitzonka, Jr.)

On colder northwest winds on Tuesday morning, winter weather returned to the Lower Bucks area. In the far west, arctic air is beginning to flow down the eastern slopes of the Rockies and covering the country with winter-level temperatures. I guess we had to expect the end of the beautiful late-summer temperatures from the weekend.

I read some interesting statistics recently about farmers and their enterprises. The average age of the American farmer is 50.3 years of age. This age is high for any occupational group. This is because the "start-up" cost of a farm unit may run as much as \$250,000. At this rate, only sons of well-to-do farmers can ever hope to become owners of farms. In the next 20 years, the number of farms in the U.S.A. will decline by 200,000 to 400,000 units and by the year 2000, only one million farms will exist in America.

Sen. George McGovern of South Dakota is sponsoring legislation in Washington that will help aid young farmers in purchasing land and equipment. The legislation is named "The Young Farmer's Homestead Act of 1975."

PROVIDES BRANCH

It basically provides a branch of government to purchase farm land and lease it to young farmers for five to seven years. During this time, the rental is computed on taxes and loan interest.

At the termination of the lease period, the farmer would purchase the farm on a 20-year period. During the 20 years, the farmer would repay one half the purchase price, interest and taxes. After the 20 years, the farmer would be required to refinance the balance through commercial methods. McGovern contends the government would not be using taxpayers' money to do the financing.

In reality, this legislation would enable the farmer to acquire land and equipment without overwhelmingly burdening his family.

MORE CALVES

Another agriculture report indicates an increase of 25 per cent more calves in Pennsylvania than a year ago. On the feed lots, there is a 40 per cent increase in the number of head of cattle in Pennsylvania.

This indicates farmers again have returned to cattle raising for meat production. As long as the market price on beef remains fairly constant, farmers will wish to raise cattle. As prices drop in times of oversupply, this is a discouraging note for meat producers. The time of adequate meat at cheap prices is gone forever. Farmers are required to show profit in their operations and if they don't they are forced by economics to seek profit in some other manner.

An ancient rule of thumb is during times of oversupply and low prices, farmers quickly discourage and cease production in that area, whether it be milk, meat, grain or wool. As the supply dries up, prices quickly rise and farmers also quickly return to production. Sometimes production lags by months to market prices.

A reader from Levittown stopped in this weekend to bring me a bag of vine-ripened tomatoes. He has been covering the plants on cool nights and uncovering them to the warm sun rays each day. My congratulations for a job well-done.

Talking about prices and quantities of commodities earlier reminds me that farmers this year received less revenue from their sour cherry production than last year. Growers produced a total of 145,250 tons in 1975 as compared to last year's production of 132,500 tons. The chief producing states are Michigan, New York, Ohio, Wisconsin and Pennsylvania. These states grew 94 per cent of the nation's production which amounts to 136,500 tons; 123,000 tons were utilized in the fresh state while 75,000 tons were frozen and 41,000 tons canned. Another 12,800 tons are being held in reserve.

Listen to this: the price this year was \$200 per ton compared to last year's \$370 per ton average. The value of this year's crop was \$22 million while 1974's value was a whopping \$49 million. Here's another case where increased production could mean disaster to agriculture.

Until next week—Happy Gardening!

[Reprint from the Congressional Record, Jan. 23, 1976]

ADDITIONAL SUPPORT FOR YOUNG FARMERS HOMESTEAD ACT

Mr. McGovern. Mr. President, the Young Farmers Homestead Act of 1975 which I introduced on October 30 of last year and which now has 13 cosponsors in the Senate and which has been introduced by six Members in the House, continues to bring favorable comment in the press and periodical publications.

I ask unanimous consent that the following press pieces in support of the legislation be printed in the Record: "RFD With Me," by Jean Rice, appearing in Gold Kist News, the publication of the large and influential southern cooperative, Gold Kist, Inc.; an article by the distinguished senior Senator from Colorado (Mr. Haskell) entitled "Last Four Decades Shows Sharp Decline in Farms," printed in the Northwest Colorado Press of Craig, Colo.; a letter to the editor of the Rapid City, S. Dak., Journal by Clayton Kjerstad of Quinn, S. Dak., appearing in the January 7, 1976, edition of that newspaper; and from the Progressive Farmer, January 1976, an article entitled, "Young Farmer Homestead Act."

There being no objection, the material was ordered to be printed in the Record, as follows:

[From the Atlanta Gold Kist News, December 1975]

RFD WITH ME

(By Jean Rice)

The cry still remains—"How're you gonna keep 'em down on the farm?"

This time though the glamor is not because they've seen Paree or the glimmering lights of the big city.

It's money. Can a young man start with nothing today and get into farming? Might can be done, but the truth is most young farmers are taking over the family farm or farming on a partnership basis.

This is good. But there are thousands of young men and women today—trained in agriculture—who probably won't ever be in a position to farm. Some economists are now saying \$150,000 to \$200,000 investment depending on the type operation.

During 1976 hearings will probably be scheduled on the "Young Farmers Homestead Act of 1975"—a bill introduced by Sen. George McGovern (D.-S.D.). A similar bill has been introduced in the House.

Washington reports indicate McGovern's mail has been highly in favor of the Homestead plan. Most of us would simply have to know more about it than we do at the present time to form an opinion one way or the other. We do know however that with land values increasing 15 percent or more a year the situation is serious for young farmers trying to get started.

McGovern's plan includes creating a Federal Farm Assistance Corp. This agency would purchase land at market price based on FHA appraisals. FHA would lease the land to young farmers for a period of seven years for cash rent—plus taxes and interest. After seven years the young farmer could quit or purchase the land through FHA or private lender financing.

The "Homestead" part of the name is from the fact that the Agency would sell the land at 75 percent of the appraisal value at the time of sale. In the seven years the young farmer farmed, the land has increased in value.

The McGovern bill offers plans to prevent quick resales and to keep the land from costing the government and taxpayer. Also it's designed so it will supplement present lines of credit.

We all need to take a real good look at this bill. It may not be the answer. It has some questionable points. It might be more bureaucracy. It might be worth considering with some amending. It may cause some co-op credit boards and private lending institutions to take a longer look at special interest rates for young farmers. Some PCA's now have special classification for young farmers.

One thing is for sure. We've got to give the young farmer a break—at my expense or your expense. It's important for young farmers to look forward to ownership.

[From the Northwest Colorado Press]

LAST FOUR DECADES SHOWS SHARP DECLINE IN FARMS

We have witnessed over the last four decades a sharp decline in the fortunes and number of family farms in this country.

In fact, the Dept. of Agriculture predicts that by the year 2000 there will be only one million farms in the United States, compared with 5.7 million in the 1930's.

Meanwhile the agriculture industry has come under the increasing domination of "agribusinesses"—the large corporations which now control 25 percent of the nation's produce even though they own only one percent of the land.

One of the most serious problems behind this trend away from the smaller independent farm is the overwhelming start-up cost facing any young person interested in taking up farming. High land prices are followed by expensive machinery, energy and farm chemicals and supplies; it all adds up to a debt that any farmer would find difficult to overcome.

The Young Farmers Homestead Act of 1975 is one piece of legislation that attempts to do something about the trend away from family farming, by helping new farmers who aren't wealthy to obtain land.

Modeled after a successful land transfer program in the Canadian province of Saskatchewan, that act would set up a federal corporation to buy farms for up to \$200,000 and then lease them to young farmers for a 2 to 7 year period for just the cost of debt service and taxes.

At the end of the lease period, the farmer could purchase the land for either 75 percent of the appraised market value or for the original cost to the corporation—whichever is greater. So the government can't lose any money, and with land price increasing as rapidly as they are it may even make some money.

So the new farmer would be free of a down payment and payments on the principal for seven years. And by purchasing the land for 75 percent of the appreciated value, the farmer would have a 25 percent equity in the land and become eligible for commercial loans.

A five-member board of directors appointed by the President and confirmed by the Senate would manage the corporation. It would be advised by a council made up of two members from each of 10 geographic regions—one of whom would be a full-time farmer and the other a person with an interest in rural affairs.

That council would advise the board on such matters as the maximum eligible income and the required amount of farm or ranch experience for a lease. Thus, we would be ensured of a practical and experienced farm voice in the program as well as a broad national perspective.

Another important provision guards against land speculation by discouraging quick resale. This section would vest capital gains in the lessee-purchaser only gradually, over a five-year period.

After carefully studying this legislation, I have decided to co-sponsor it. Sen. George McGovern of South Dakota is the principal sponsor.

It would give young farmers without a lot of money the capital they need to start up a business, would guard against speculation and still would be of little or no ultimate cost of the government.

[From the Rapid City (S. Dak.) Journal, Jan. 7, 1976]

HOMESTEAD ACT

The Young Farmers Homestead Act may be as good as the first Homestead Act. How can a young farmer get started today when he has to buy the land, farm machinery, livestock and a home? Who would loan him this money?

This act is set up so if you are a good efficient manager you can get a start. The land has to be all paid for but the time schedule is set up differently.

Most of the land today is artificially high where large landholders are the only ones that can buy. The young farmer starting out should be able to compete for this land or else the rich get richer.

It's doubtful this act will raise land values because established people can pay for land with land they already own but someone without any land has to make that land he buys pay for itself.

The reason some farm organizations are opposed to this act is because these people are the ones that own land.

CLAYTON KJERSTAD.

[From the Progressive Farmer, January 1976]

YOUNG FARMER HOMESTEAD ACT

Keep an eye out for Senate hearings on this measure (S-2589) early in the new year. It is a "sleeper" that could go all the way. Not given much chance when introduced last fall, the bill has gained surprising momentum since then. Reason: the legislation faces up squarely to what probably has to be done if not-rich but bright youngsters are really going to get into ranching or farming for themselves.

Briefly, the bill provides for Government purchase of ranch and farm units for lease and eventual sale to young farmers. Lease for two to seven years would be at cash rent, based on real estate taxes and carrying charges. Sale price at 75% of appraised value would give the young buyer a 25% equity or "sweat value" in the appreciation that occurred during term of the lease.

Big idea of the plan is to keep family farming going in America. Just more credit won't do it, say the bill's sponsors, who include Senator John Sparkman of Alabama. Start-up costs in farming today are somewhere near \$250,000. Average

age of U.S. farmers is more than 50. Projections show, meanwhile, that unless something is done to stop the trend, somewhere between 200,000 and 400,000 farm units will disappear every year in the next 20 years.

[Reprint from the Congressional Record, Mar. 9, 1976]

YOUNG FARMERS HOMESTEAD ACT CITED IN PARADE MAGAZINE

Mr. McGOVERN. Mr. President, I have had printed in the RECORD several editorials and other press comments supporting the Young Farmers Homestead Act. I was pleased to note in the Sunday, March 7, 1976, edition of Parade magazine a short article describing the act in that section of the magazine entitled, "Keeping Up With Youth."

Because of the tremendous nationwide circulation of this publication and to bring to the attention of other Senators the growing acceptance of this concept throughout the Nation, I ask unanimous consent that the text of the article be printed in the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

YOUNG FARMERS

Young people can no longer afford to start a farm in America. The "start-up" cost of a farm now runs as much as \$250,000, which explains why the average age of an American farmer is 50.3 years.

Sen. George McGovern (D., S. Dak.) would like to see more young people become independent farmers. Accordingly, he's introduced The Young Farmer's Homestead Act, providing for a branch of government to purchase farmland and lease it to young farmers for five to seven years.

Under McGovern's plan, at the end of the lease period, the young farmer would purchase the farm on a 20-year plan, during which time he or she would repay half the purchase price, interest and taxes. When the 20-years expired, the farmer would be required to refinance the balance commercially.

[Reprint from the Congressional Record, May 13, 1976]

FINANCIAL HELP FOR YOUNG FARMERS

Mr. McGOVERN. Mr. President, dialog continues at a heated pace in agricultural circles over legislation I introduced last year called the Young Farmers Homestead Act of 1975. Since the introduction of my bill, the Minnesota State Legislature passed the Family Farm Assistance Act which aims to solve on a State level some of the problems I pointed out as pressing at the time I introduced my bill in the Senate. I have talked with Minnesota State legislators as well as farm leaders from that State who furnished me valuable background material concerning their legislative experience. In my judgment the Minnesota State Legislature should be congratulated on taking an impressive first step.

Of interest to Senators should be an extremely balanced piece of agricultural reporting in the May 1976 issue of Ag-World by Rudolf Schnasse entitled "Financial Help for Young Farmers." Mr. Schnasse discusses the provisions of the Young Farmers Homestead Act at length and then proceeds to explain the Minnesota legislation as well as the Minnesota Farm Bureau Federation's arguments against the Minnesota act. I plan to pursue this dialog through extensive hearings on my bill in the very near future.

Mr. President, for purposes of information, I ask unanimous consent that the article I have referred to be printed in the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

FINANCIAL HELP FOR YOUNG FARMERS

(By Rudolf Schnasse)

How young farmers can get started is becoming more and more of a concern each year as capital requirements mount. In response to these concerns, there are at least three bills, two enacted and one proposed, with the stated objective

to help young farmers overcome these difficulties. While similar in many respects, the emphasis is different in each case.

What follows is a brief report on the Young Farmers' Homestead Act, proposed by United States Senator McGovern; the Minnesota Family Farm Security Act, just passed, and a program in Saskatchewan begun in 1972 that had been studied by both Senator McGovern and Minnesota Legislators.

On the federal level, the Young Farmers' Homestead Act continues to move through prescribed channels in Washington. Its main author, Senator George McGovern (D.-S.D.) and his staff would like to hold hearings between May 15 and June 1, 1976. As of this writing (April 22) these dates have not been confirmed.

This bill was introduced by McGovern in October of last year. Cosponsors are Senators Mansfield, Senate Majority Leader; James Abourezk (D.-S.D.); Gary Hart (D.-Colo.); Hubert Humphrey (D.-Minn.); Lee Metcalf (D.-Mont.); Walter Mondale (D.-Minn.) and Dick Clark (D.-Iowa).

In a press release issued shortly before McGovern traveled to Saskatchewan to study the effectiveness of land acquisition and tenure laws and practices there, he explained the reasons why he planned to introduce his bill.

Many of those reasons are familiar to an agricultural constituency, but not necessarily to an urban audience. He therefore reiterated them to his fellow Senators before proposing his bill.

They include: High land values, expensive machinery and high operating costs and that "it is simply impossible for potential young farmers to face up to conventional credit concepts of incurring sizeable indebtedness . . . for land acquisition and operating capital."

He further cites the average age of American farmers (50.3 years) and projections of continuing decline of farm numbers by 200,000 to 400,000 units over the next 20 years—plus the fact that start-up figures now may be around \$250,000.

Based upon such "discouraging figures," the Senator concluded "that it is now time to completely reexamine our traditional concepts of farm credit as well as land tenure."

His quest for a new approach is the Young Farmers' Homestead Act, printed in *The Congressional Record* Vol. 121, No. 159 of October 30, 1975.

Senator McGovern proposes that a "Federal Farm Assistance Corporation" purchase farmland and then lease it to young farmers for five to seven years. At the end of the lease period, the farmer would purchase the farm on a 20-year plan. During that time the individual would repay half of the purchase price, interest and taxes. After 20 years, the balance is expected to be refinanced commercially.

Among those who will question the basic concept and practicality of the bill will be The American Farm Bureau Federation (AFBF).

Mr. Donald T. Donnelly, Associate Director of Information, AFBF, Washington, D.C. said in a telephone conversation that it is too early (April 22) to make a statement because hearings have not actually been scheduled yet. He did, however, confirm that the American Farm Bureau Federation will be represented at the Senate hearings.

THE SASKATCHEWAN EXPERIMENT

In an introduction (also part of *The Record*), Senator McGovern relates the genesis of the bill to an experiment that was started in Saskatchewan in 1972 and he tells of his impressions while traveling there: They now have some 1,400 farm families in Saskatchewan who have leased a half million acres of land in individual family sized units from the Saskatchewan land bank. The way it operates is the government purchases the land at market values, and then they offer it in a leasing arrangement to a bona fide family farmer. After a period of 5 years, if he wants to buy the land he has an option to start making payments on it. If he does not want to do that he can continue to lease the land. But one thing it has accomplished is to get young farmers on the land who would otherwise be forced into already overcrowded cities, and it prevents the steady acquisition of land by corporations or by high income individuals.

As McGovern sees it, his proposal differs from the Saskatchewan program in at least one important respect. The Canadian program aims for near lifetime leases with little incentive or requirement for purchase by the young farmers.

According to our sources, the Saskatchewan program presently encounters difficulties. A story by Allan Rosseker in the *Financial Post* of Toronto notes in

a headline that farmland is getting too expensive to stockpile and goes on to say that land prices in the province have increased an average of 75% in the past three years.

The author quotes David Minor, a member of the Provincial Land Bank Commission: "The land is within reach only of those persons adding to existing holdings or planning to supplement farm income from other sources."

The commission's 1975 budget for land purchases was slightly under \$10 million and has been spent. The current budget is being reviewed and is expected to remain at the same level. To December, 1975 the commission owned about 635,000 acres. Rosseker reports also about concerns of Edgar Kaeding Saskatchewan Agriculture Minister, who said that the Land Bank Commission may have to start passing up land purchase opportunities because of the price of some farmlands.

THE MINNESOTA FARM SECURITY ACT

Meanwhile, a bill passed by the Minnesota legislature is said to have objectives similar to those spelled out in Saskatchewan and by Senator McGovern.

The Minnesota Farm Security Act is the first of its kind passed in the United States and thus reflects political and economic realities as perceived by a majority of state legislators.

Organizations sponsoring this legislation included: The Minnesota Farmers Union, the Minnesota Association of Commerce and Industry, Minnesota Public Interest Research Group, the Joint Religious Legislative Council and several banking associations.

Obviously, it was enacted after considerable give-and-take and could well serve as an example elsewhere if and when such an initiative were deemed desirable.

We therefore present here 1) some salient paragraphs of an "informal summary" that is being used by Minnesota legislators to explain the Act to their constituents and 2) some arguments advanced against passage of the bill by the Minnesota Farm Bureau Federation.

INFORMAL SUMMARY OF THE MINNESOTA ACT

The Family Farm Security Act seeks to provide financial assistance for farm land acquisition by beginning farmers. Persons whose net worth (including that of spouse and dependents) is less than \$50,000 may qualify for assistance under the program. Assistance will be provided in two ways:

1. The state will guarantee 90% of the outstanding balance due on a qualifying loan; and

2. The state will provide funds to defer the interest due on a qualifying loan until the farmer has become established and is better able to handle this burden.

This latter form of assistance is called the "payment adjustment", and is in the amount of 4% of the balance due on the loan each year, for a period of ten to twenty years.

The payment adjustments is for ten years and can be renewed for another ten-year period. At the end of the period for which the payment adjustment is made, the farmer must repay the entire amount of adjustments received. Presumably he will be able to refinance to accomplish this if he doesn't have the required cash. The payment adjustment is a form of loan; it is not a giveaway.

The Family Farm Security Program will not put the state in the business of owning farmland. If a default occurs on a guaranteed loan and the state obtains title to the property following a foreclosure, the state must, within fifteen days, begin to advertise the property for sale to the highest bidder.

House File 1984 contains measures to prevent loan recipients from getting undue advantage when they no longer need help. If an applicant's net worth exceeds \$100,000 in any year, he automatically becomes ineligible for a payment adjustment in that year. Also, corporate farms are not eligible for consideration under the program.

Although the state is taking some risk in guaranteeing farm loans under this Act, it is not likely to suffer severe financial reverses. No loan can be guaranteed if the purchase price exceeds the appraised value. Also, the guarantee is for 90% of the loan value, so participating lenders will exercise their judgment in committing money to loans. Loans are only for real estate acquisition and are to be secured by first real estate mortgages. Thus, if the value of farmland continues to increase as it has over the past three decades, or even stabilizes at current levels, the state's guarantee will be adequately secured.

The Family Farm Security Act takes advantage of the fact that, in recent years, over half of the farmland acquisitions in Minnesota have been financed by the contract-for-deed method. This Act provides for the seller's participation in financing farm sales in a fashion similar to the contract-for-deed, called the "seller-sponsored loan". Such loans will preserve the tax benefits that accompany installment sales under the traditional contract approach.

This new program will not necessitate the creation of a vast, new bureaucracy. It is to be administered by a small staff under the supervision of the Commissioner of Agriculture, with the advice of a seven-member advisory council (Board, ed.). Loans will be transacted primarily using the resources and expertise of existing rural lending institutions.

Finally, the Act includes provisions to prevent land speculators from attempting to take advantage of the program. A stiff capital gains tax structure will apply to gains realized on farms financed under this program that are sold within ten years of the date the loan was issued. Also, land financed hereunder must be kept in active agricultural production or the loan is considered to be in default.

SOME ARGUMENTS AGAINST THE MINNESOTA ACT

While the Minnesota Farm Bureau Federation is not opposed to aiding beginning young farmers in terms of credit and capital, it is set against the Family Farm Security Act and the board concept as part of the approach. Following are excerpts from testimony given by Vern Ingvalson representing the Minnesota Farm Bureau Federation before the Minnesota House Agriculture Committee:

"We encourage strengthening and improving upon available and existing sources of agricultural credit. An increase in the 8 percent usury ceiling, or possibly exempting agricultural loans from the usury provisions, would mean more money available to beginning farmers.

"In addition, Farm Bureau suggests that there are a number of other ways and means by which the young, beginning farmer may be helped meaningfully. Farm Bureau recently testified in support of H.F. 1349, one of some 13 bills relating to inheritance tax reform introduced in the Minnesota House of Representatives since the 1975 legislature convened one year ago.

"H.F. 1349, and others of a similar kind, propose liberating estate and inheritance tax statutes. Farm Bureau lends its strong endorsement to H.F. 1349, believing legislation of this sort is essential in many respects—not the least of which is the fact, or so we believe, that it would be an incentive for the older farmer to dispose of his land holdings without being unduly penalized as far as taxes are concerned. This could, and would, in our view, make more farmland available for beginning farmers.

"There is need also for legislation to relax our capital gains taxes. Here again, we feel this would prove to be another tool by which older farmers would be more favorably inclined to sell land.

"Of substantial assistance financially to beginning farmers, too, would be an expansion of the investment credit on both state and national levels. Farmers who are already well established in the profession also should be encouraged to aid individuals who are only beginning to farm. In addition to aiding them financially, help in the form of machinery and livestock exchanges, partnership arrangements or hiring of young farmers are other forms of suggested assistance.

"As a matter of policy, Farm Bureau opposes the entire concept of government involvement in the purchase of farmland for the specific purpose of resale or lease to beginning farmers. Thus our opposition to what it is that the Saskatchewan land bank plan entails. It is our belief that such a program would interfere with a basic fundamental constitutional right—namely, to individually own, use and dispose of property.

"We are opposed, also, again as a matter of public policy, to any agency creating standards, or requirements, for beginning farmers, such as H.F. 1984 proposes. Such agencies, or boards, are subject to political pressures and could acquire unbridled control over just who is, or shall be, eligible to farm . . ."

Mr. Ingvalson closes his testimony with a historical review of other legislation enacted in Minnesota.

STATEMENT OF HON. DICK CLARK, A U.S. SENATOR FROM IOWA

Mr. Chairman, I am indeed pleased to appear this morning as the first witness to discuss the Young Farmers Homestead Act. Please accept my congratulations on the leadership you have displayed in creating a national dialogue on new ways

to deal with the ever-increasing credit needs of young farmers. I further commend your innovation in suggesting that we must approach this new era of inflated land costs and annually increased production costs with unconventional answers. It does not seem inappropriate to point out that your bill, now cosponsored by seventeen of your colleagues, indicates a high level of concern in the Congress to support your far-reaching search for answers to these difficult questions.

Mr. Chairman, if we are going to encourage the young to preserve the family farm we are going to have to take positive steps to offset several trends. The average age of a U.S. farmer is now 50.3 years—at the same time, land costs are increasing at alarming rates. From March 1975 to March 1976, land in Iowa increased by 26%. This year production costs for corn farmers are estimated to increase by 9%. Many young farmers in Iowa tell me that the only way a young man can choose farming as a career is “either to inherit it or marry it.” Increasing numbers of Iowans tell me that start up costs including land, machinery, and livestock can run as high as a quarter of a million dollars. With increasing frequency I hear it said that the historical sources of credit do not meet the needs of the person who is well trained and well suited to farm. These young men and women lack any way to provide the security conventional banking institutions and government programs must, by law, require.

It seems to me that the nation has a choice. We can permit our agriculture to be held increasingly by corporations and absentee landlords, or we can design programs through which the government can underwrite the initial, highest risk period for the young farmer. I believe that the family farm has served us well as an economic and social unit and that it behooves us to design ways to protect and enhance that institution. Much of our most cherished heritage, our value system, emanates from the family farm.

Mr. Chairman, I have applauded your foresight in introducing the Young Farmers Homestead Act. I understand that your purpose was not to field legislation that was set in stone or which would not allow for change or amendment, but rather to set the stage for the Federal Government to recognize and respond to credit needs of the young. It was in this spirit that I cosponsored the legislation. I think that some refinements are necessary and it is for that reason that I welcome the opportunity to appear before your subcommittee today.

I want to comment on a couple of key questions in my mind that I hope witnesses will touch on this morning, or perhaps later on in these hearings. I hope we will hear from witnesses who will discuss their views on the mechanism the Government should design to underwrite a young farmers' attempt to begin in farming. The proposal here would have a Federal corporation, the Federal Farm Assistance Corporation, purchase land offered on the open market at going rates, and assemble (or subdivide) farms into family sized units.

These farms would be offered to qualified young farmers who would farm them on a lease basis, with an option to buy for 7 years. After that period each farmer could buy his land for 75 percent of its current value.

The proposal permits the young farmer to, in effect, work off the down payment. If the price of the land went up, he could well end up paying more than the value 7 years before. But, he would have earned 25 percent equity—a solid down payment. He would repay the balance of the loan, either by borrowing from a private source, or through an FMHA loan on which he would pay the Treasury rate, plus ½ percent. If the buyer attempts to resell quickly for a speculative profit, the Government would recapture the speculative gain. The increased value vests in the buyer only if he farms the land.

One of the major questions I hope will be addressed in these hearings is the question of whether it is necessary for the Government to assemble the farm unit; whether they should take title to the land. I proposed earlier, in 1974, that the Government make credit available to young farmers under an arrangement whereby the young farmer repays half the principal over a 40 year period, and then repays the balance. Thus, he could take advantage of increasing land values to liquidate part of the loan.

Under that proposal, the buyer would be responsible for finding a farm for sale, or assembling land parcels into a viable farm unit. I did not propose that the Government take title to any land, and I would prefer not to have the Federal Government purchasing land if the purposes of the bill can be achieved in another way.

Another major question which I hope will be addressed here is the impact of S. 2589 on land prices. I think this program will not succeed if it ends up with the Government, on behalf of young farmers, competing with other farmers

(some established and some not so well established) for land. Somehow we must protect the access to the market of the middle-aged farmer who needs another 80 acres to convert his marginal farm to a prosperous unit. We must assure ourselves that we are not sending the Farmers Home Administration out to bid land out of that man's reach, no matter how deserving the young farmer who would receive it may be.

Perhaps the answer to this concern lies in the amount the young farmer is permitted to bid for the land. Perhaps an additional mechanism is needed. I think we need to be especially conscious of the potential impact of a program such as this on our constituents who are not direct participants in the program. I hope we will have some discussion of this point.

In this connection, I have asked the Economic Research Service of the USDA to estimate the impact the enactment of S. 2589 would have on land prices if it were operated at a level such as we might reasonably expect. I hope to have a response from ERS to include in the record of this hearing, which I understand will be open until June 25.

Mr. Chairman, again let me commend you for the breadth of vision shown by the program proposed in S. 2589. As with any important issue, there are real issues still to be resolved. I'm not sure I agree with every point in the proposal, as I have pointed out earlier. I feel that the needed refinements are within reach and I hope we can hammer them out and build them into a bill with strong support. Certainly, the need is real and it is increasing every year.

At stake, I think, is the efficiency of our agriculture, the quality of our food and fiber, and the continuation of the family farm as a viable economic unit in the years ahead.

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Mr. Chairman, I commend you for scheduling these hearings on your proposed bill to create a Federal Farm Assistance Corporation to acquire farm land and lease back this land to young farmers for 7 years at an amount sufficient to cover the taxes and interest cost on the investment.

Certainly, all of us must be concerned about the financial capability of young people to begin farming. Rapidly increasing land values, coupled with higher interest rates and operating costs, have been major contributors to the problem.

Despite the good intentions of this legislation, however, I must oppose the concept of the Federal Government owning farm land. It would seem to me a far better approach to assist young farmers by making some provision that our Federal land bank associations or the Farmers Home Administration take steps to assist them through their existing financial procedures and institutions.

Beyond this basic objection, there are other questions that bill poses. For example:

1. Would the Federal Government really be able to acquire much land if no purchase could be made in excess of current appraisals?
2. Could young farmers even afford interest and real estate taxes they would be required to pay during the lease period with current land prices and interest rates?
3. Either by choice or financial necessity of farmers in the program, isn't it possible that the Federal Government could be the land owner much longer than the seven year lease period?

I shall be interested in hearing the witnesses and would hope you will consider major changes in your bill toward a proposal that will financially assist young farmers without Government ownership of farm land.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM MINNESOTA

In recent years, those of us familiar with the American agricultural scene have become concerned with maintaining the existence of the family farm.

This concern is based on a number of important factors. First of all, the number of farms has declined from 5.8 million in 1948 to just over 2.2 million in 1974. With this decline in number, the size of farm operations has increased significantly.

At the same time, the farmers have begun to use ever more sophisticated and costly machinery. Tractors costing \$20,000 or combines at \$30,000 are not uncommon.

The improved prices for farm products, over five years ago, has resulted in significant increases in land prices. Many older and well established farmers have gone heavily into debt in order to buy additional land.

Today one American farmer produces enough in the way of food and fiber to fulfill the needs of over 50 people here and abroad. In 1950 one such producer was able to feed only 14 people.

These trends have not been an unmixed blessing. The indebtedness of our farm producers has nearly doubled, going from \$52.5 billion in 1971 to over \$90 billion today. Our agricultural production is not only energy intensive, it is also heavily capital intensive.

And the costs of production have increased significantly—by nearly 45 percent in the last three years. At the same time, the net farm income declined by about 25 percent from 1973 to 1975.

In spite of this Administration's frequent declarations in support of a free market policy, we have witnessed interventions in the export markets in each of the last three years. This undoubtedly has had a major impact on farm prices and agricultural profitability.

The young farmer under these circumstances faces a highly volatile and unpredictable situation. Undoubtedly, unless he has significant family resources, it will be necessary for him to borrow heavily in beginning to farm on his own.

Many lending institutions simply do not have the available funds or cannot assume the risk involved in underwriting a young farmer.

Obviously, in considering a proposal such as we have before us, we want to make certain that we are considering young individuals who are sound credit risks. We need to find people who are familiar with agriculture, have some experience and are willing to work hard and make the necessary commitment.

But I would also caution that the lack of a sound food and agricultural policy today, makes it hard for any young farmer to get going and succeed in this highly complex and volatile situation. Our government should attempt to define and develop a policy which would provide additional protection and predictability for all of our producers. This would be of major assistance to young farmers.

I am concerned that in the roller coaster situation which our producers face today that the young farmer can be wiped out by one or two years of surplus production, bad weather or reduced demand.

In looking at this measure we need to think in terms of what kind of an agricultural system we want for the future. Are we prepared to accept an increasingly large proportion of our agricultural production under corporate direction? We need to recognize that a basic farming operation today may require a quarter of a million dollars to be a viable operation.

Since, as I understand, the average age of today's farmers is just over 50 years, we need to face this issue without delay. If we want to have an adequate number of family farmers in the future, we need to develop the program or mechanism to encourage young people to be the farmers of tomorrow.

We have many times taken the hard work and diligence of our family farmers for granted. They are the marvel of the world. Other nations, and certainly the Soviet Union, recognize this treasure.

If we wish to maintain the family farm and the great productivity associated with it, we should make every effort to keep our producers in business and encourage young people to take up this difficult but rewarding endeavor.

STATEMENT OF HON. QUENTIN N. BURDICK, A U.S. SENATOR FROM NORTH DAKOTA

Mr. Chairman, I am pleased to have the opportunity to offer my thoughts on an issue of great concern, both in North Dakota and nationally. This is, of course, the direction of America's food and farm policy in the years ahead. There is no question the Young Farmers' Homestead Act, S. 2589, can be an integral and significant part of this important policy.

We are all well aware that American agriculture has become a major factor in the world's economy. It is likely to become still more important in the future—both to the United States and to the people of other nations. America's number one industry is vital to the security of this country and to the world.

As essential as it is to maintain our agricultural production, there is a very disturbing trend taking hold in America's number one industry. It is, simply, a decline in the number of young people on the family farm. A report issued by the Census Bureau of the United States Department of Agriculture at the be-

ginning of this year pointed this out in a clear and troubling manner. The study reported that our farm population has dropped by an average of 1.2 percent per year from 1970 to 1974. While there were 9.7 million farm workers in 1970 compared with only 9.3 million in 1974, there was an even more incredible drop to 8.9 million farmers in 1975, a worrisome decline of 8 percent. Why has this happened? I believe one of the major reasons is that our young people can no longer afford to start a farm in the United States. In fact, studies have shown that it costs as much as \$250,000 to begin any farming operation. Little wonder that the average age of the American farmer has soared to 50.3 years.

I support the Young Farmers' Homestead Act as it would be a positive step in encouraging more young people to become independent farmers. The tremendous importance of agriculture in the American economy and what it has to offer our young citizens is and will continue to be a life-supporting factor in world affairs. The family farm is recognized as an efficient and productive unit in our society. We must then continue to insure the stability and preservation of family farming and I personally believe the Young Farmers' Act is a positive method of financing young potential farmers. I trust that S. 2589 can play an important and highly prominent role in formulating a comprehensive food and agriculture policy in the United States.

At this time, Mr. Chairman, I take great pleasure in presenting North Dakota's Commissioner of Agriculture, Mr. Myron Just. Commissioner Just is here this morning to present a message on this progressive legislative proposal. It would be appropriate to mention a few of Myron's attributes that make him especially qualified to present that message.

Myron was born, raised and educated in the Prairie State of North Dakota. He is a graduate of North Dakota State University with a degree in agricultural economics. Ten months of his college education were spent in England studying as an agricultural exchange student. Commissioner Just, formerly an associate editor of *The Dakota Farmer* magazine, has published articles in the following journals: *The Union Farmer*, *World Farming*, *The Furrow*, and *The Minneapolis Tribune Picture Magazine*. After a term in the North Dakota legislature, Myron spent six weeks during 1973 studying agricultural organizations and farm policy in 10 European countries. As a result of that study-tour 10 articles were published on such varied topics as farm organizations and their political effectiveness in England, Norway, and Sweden; the Common Market and its agricultural policies; the International Federation of Agriculture Producers (IFAP) and its farm policies in Europe; the International Wheat Council in London and its role in the international wheat market; and the promotion of American farm goods in Europe.

In addition to his long list of achievements, Myron's most important qualification for this present position is that he and his wife, Ruth, own and operate their own farm in LaMoure County in southeastern North Dakota.

So, I am pleased and proud to appear before this subcommittee with Commissioner Just. Myron will now offer his positive views on the Young Farmers' Homestead Act.

STATEMENT OF HON. MIKE MANSFIELD, A U.S. SENATOR FROM MONTANA

Mr. Chairman, it is evident that the Congress cannot legislate vocational objectives for, or instill motivation in, the young people of this country—and rightfully so. However, it can provide encouragement by eliminating unnecessary obstacles for those possessing a clear desire to pursue a specific career goal. The Subcommittee on Agricultural Credit has that opportunity in the Young Farmers Homestead Act. I do not interpret S. 2589 as an effort to entice unwilling or indifferent young people into agricultural careers. There are many in my state of Montana, as I am sure there are throughout the nation, who are sincerely dedicated to the values and responsibilities of farm life, but who are prevented from getting a start in farming or ranching because of prohibitive costs. Land values, equipment and operating costs have increased dramatically.

Since the introduction of the bill late last year, I have heard both from young people interested in agriculture and from older farmers and ranchers who plan to retire and would like to give younger people an opportunity to continue on the land. This legislation serves not only the personal and professional goals of an important sector of our society, but also the food needs of the country at large.

The Young Farmers' Homestead Act will not require extensive bureaucratic growth, nor is it open to charges of "another well-intentioned but mis-directed federal giveaway program." It provides for the purchase of family size farms and ranches which could be leased to qualified young farmers for a period of seven years. During this time no down payment or payment on principal would have to be made. All of the young farmer's resources could be directed toward the making of a successful agricultural operation. As you know, the farm unit is jeopardized by any number of contingencies; extreme weather, fluctuating market conditions, shortages of essential farm commodities, inadequate transportation of farm produce—any one, or combination, of which can produce financial ruin. Under this bill, the initial costs of the farming operation are somewhat mitigated, and the young farmer need not be forced off the farm because of one or two bad years. At the end of the seven-year lease period, he or she would have the option of buying the farm.

The small family farm is not an outmoded institution—economically or socially. From a limited technological perspective it might appear that large farms are more advantageous because cost-per-acre could be reduced and greater quantities of food sold at lower prices. This has not been the case and Dan Cordtz, who in a *Fortune Magazine* article entitled, "Corporate Farming: A Tough Road to Hoe," details a number of corporate agricultural failures, concludes: "With the rarest of exceptions, their (corporate farms') performance has ranged from disappointing to disastrous . . . independent farmers, agricultural economists, and even many corporate farm managers agree that the most efficient producing unit is a farm that can be run by its owner." It can be further argued that there are definite economic benefits to the development of small, independent agricultural operations. The long-range costs of unemployment due to mechanization must be considered. Many agri-corporate operations are run by so-called "paper farmers" simply for the purpose of establishing tax write-offs. There is reason to believe that tax revenues would be increased by encouraging family farming.

Other factors must be weighed including the environmental impact of industrialized agriculture. Existing evidence suggests that big farms are more energy intensive and tend to rely more heavily on unsound cultivation techniques than do smaller operations. Dr. E. Phillip Leveen maintains that there is "no inviolate correspondence between large acreage and low-cost production;" and insists that "farm size is a matter of social choice and public policy." The proliferation of massive corporate agriculture is not a result of the economics of the land, but the economics of politics. Agribusinesses are able to take advantage of government policies and tax breaks, which are not available to the small family farmer.

The definitive study of large vs. small agricultural units was made of two areas in California in 1944 and 1970. The Arvin-Dinuba study revealed that the smaller farm community: supported approximately twice the number of independent businesses; profited from a retail trade greater by nearly two-thirds; and supported twenty percent more people and at higher standards of living. It is interesting to note that fewer than one-third of the workers in the smaller community were agricultural laborers and seventy-five percent of the farms were owner-operated; while in the larger more than two-thirds were dependent on wage labor and nearly seventy percent of the farm owners did not live in the community. From a social and cultural perspective, Dinuba, the smaller community, was more desirable. It had good schools and more parks, churches and civic organizations. Arvin, on the other hand, had many slum areas and few good schools or recreational facilities. John Garamendi, Chairman of the Special Committee on California's Food and Agriculture Economy, summarized the lesson of the Arvin-Dinuba study: "The evidence compellingly supports the notion that it is in the long-term public interest to promote a healthy rural environment, and that one essential ingredient in achieving this is small family farms."

While it is true that the inflationary spiral has made it all but impossible for newcomers without extensive means to begin a farming operation (it requires an investment of up to \$250,000), it is not the case that these farm units cannot operate profitably. There has, however, been a downward trend in the number, and an upward trend in the age, of those engaged in agriculture in this country. Several million family farms have been consolidated out of existence in recent decades. If something is not done the family-type farm will disappear, with the result that only corporate type farming will remain. That would be unfortunate for the economy in general and for individual consumers who have already experienced the impact of the market manipulations of massive agribusinesses.

Concentration in agriculture opens the door to collusion, market sharing and restriction of entry of new competitors; all of which contribute to increased food prices. Other impacts of this consolidation were discussed in a New York Times editorial: "Corporations and big commercial farmers have the capital to introduce modern technology rapidly with consequences which are unplanned and unprovided for. . . . It is time to examine this technological mystique of 'progress' in agriculture and subject it to rational choice and deliberate judgment." Many aspects of public policy must be re-examined; however, today we have the opportunity to begin the reversal of current trends by considering a new farm homestead program. Consumers, enterprising farmers and the country as a whole will benefit.

The title of this legislation invites comparison with the Homestead Act of 1862. That legislation fulfilled the late nineteenth century need to develop and cultivate the lands of the United States by providing land to those who were willing to improve it. Obviously, the homestead days have long since passed; but the Jeffersonian ideal of an agrarian society with agricultural production in the hands of small landowners has not. The Young Farmers' Homestead Act meets a new twentieth century challenge to protect the farming careers of the descendants of those first homesteaders. The warning has been sounded before. In an address of 1942, Senator Robert LaFollette, Jr. stated that "economic forces are already at work in this Nation, which, if they are not brought under proper public control, will ultimately . . . wipe out that entire concept and obliterate the family-sized, family-owned, family-operated farm. I fear that unless we tend to our business, we shall ultimately have a predominance of industrialized agriculture." It is not too late to meet this challenge. I commend Senator McGovern for his innovative leadership in developing this program to enable young farm families to stay on the land. Mr. Chairman, I ask that my statement be made a part of the printed record on S. 2589.

U.S. SENATE,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C., June 25, 1976.

Hon. GEORGE S. MCGOVERN,
Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Senate Agriculture Committee, Russell Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: I am proud to be a cosponsor of S. 2589, the Young Farmers Homestead Act, as I believe it to be an innovative and bold approach to the problem of how to preserve our diminishing farmlands. In all New England, as in my own state of Massachusetts, this problem is particularly acute. In Massachusetts we have lost nearly 3,000 farms in the last ten years. We have only two-thirds as many farmers this year as we had in 1965.

Of course, several powerful economic forces are taking their toll on the rural areas of my own largely urbanized state. One important factor is the heavy pressure on farmland from real estate developers. Indeed, I am drafting legislation to provide federal support for state programs to acquire less-than-fee interests in farmlands in order to alleviate some of the pressure to sell. And, of course, there is the burden of death taxes on small farms, which I trust the Congress will be voting to alleviate in the near future.

However, I am convinced that the major problem in saving our small farms is the lack of skilled young men and women to take over these enterprises. While we hear often that it is lack of motivation or of willingness to take on the grueling tasks that are the farmer's lot, I believe that more practical reasons inhibit young farmers who would like to start out cultivating the land. The high costs of machinery, fuel and feed have been thoroughly documented to your Committee, and need no elaboration. I believe that the McGovern bill offers the most direct and practical method for alleviating the impossible demands for enormous front-end investment by new farmers.

I know that the argument that small farms are "uneconomical" has gained some popularity. It is my firm belief that not only does the nation have a stake in maintaining a competitive small enterprise system, but that the social and ecological values of maintaining open and productive farmland justify public investment and risk related to the proposed program. Many will say that the free market will continue to drive out small farms and that we should bow to this inevitability. Giant agribusiness, we will be told, is the wave of the future. But I am deeply convinced that the preservation of an historic way of life

is important enough for the beauty and diversity of our nation and of regions like New England that we should invest in the future of our farmers. The individual farmer is still the most careful and the most effective steward of the land. And the land is rapidly becoming our most scarce and most precious resource.

Sincerely,

EDWARD W. BROOKE.

STATEMENT OF HON. JAMES ABOUREZK, A U.S. SENATOR FROM SOUTH DAKOTA

Mr. Chairman, I want to commend you and this Committee for demonstrating your concern and interest by holding these hearings. As a cosponsor of S. 2589, I strongly believe that the Young Farmers Homestead Act is one of the most significant and promising new concepts for coping with an increasingly difficult and complex problem—that of finding a way to keep young farmers on the farm and maintaining what remains a cornerstone in American agriculture—the family farm.

According to an article which I read recently, a new bumper sticker, with the slogan "Crime Doesn't Pay, Neither Does Farming," is appearing on farm vehicles throughout the Midwest. The truth of the matter is that this slogan isn't far from wrong.

An official report issued by the Department of Agriculture in March confirms the charges made by farmers regarding the severe economic problems which they are facing. Realized net income from farming decreased by nearly \$2 billion in 1974, plummeting to \$27.7 billion. And the median income for a farm family remains an incredible 30 per cent below that of families living in urban areas.

Anyone even vaguely familiar with agriculture knows that this year has been one of the worst in history for our farmers in the upper Midwest. The record-setting drought in the Dakotas, Minnesota, and Wisconsin has meant the total loss of crops and now has threatened the very livelihood of many farmers who are now faced with selling their foundation livestock—something that has taken years and a fortune to build up. Having lost their herds and with debts piling up to unprecedented levels, our farmers may be forced from their farms in numbers which haven't been witnessed since the disastrous thirties.

In the last thirty years, nearly three million farms have been lost and nearly 40 million people have been forced from their farms and into the cities as a result of terrible weather conditions, depressed prices, questionable agriculture policy and farm machinery prices which have tripled.

According to Agriculture department statistics, this country is continuing to lose more than a million acres of farmland annually. The doors and windows of nearly 200,000 farms continue to be boarded up each year as our farmers are forced to give up the struggle. South Dakota, alone, lost more than 1,000 farms in the two year period between 1973 and 1975. And farm residents now count for less than ten million people.

To compound the problem, the high cost of acquiring a farm these days almost prohibits young farmers from taking over and operating a farm.

In just the last ten years, national farm production expenses increased from \$32 billion to more than \$73 billion. Interest charges rose by more than 210 percent and taxes per acre, rose almost 85 percent. Even seed prices had risen by more than 130 percent.

In terms of acquiring land, farmland value rose from an average of \$310 per acre to nearly \$355 in 1974 alone. In just ten years, the average value of farm real estate rose from \$47,950 to almost three times that figure, \$132,700, according to Agriculture department figures.

It is more than sheer coincidence that while the number of farms in this country continues to decrease, the average size of the remaining farms is on the upswing. In the period between 1960 and 1975, the average size of our farms increased by more than 30 per cent.

Corporate farming, of course, is the beneficiary of all of this. According to recent statistics, corporations owned and operated 49 million acres of farm land and rented out an additional 16 million acres. No one can say how long it will be before these corporations dominate American agriculture. But no one can deny that all the chips are in their corner. Given favorable tax loopholes which allow them the capability to invest heavily in agriculture, the thousands of farms now being abandoned are theirs almost for the asking. Given current trends, one can

easily imagine the complete demise of the family farm within our children's lifetime.

The ironic thing in all of this is that the vast majority of American people don't want this to happen. No one is willing to forego the tremendous heritage which has been laid down in 200 years of American farm ownership—including, of course, the original Homestead Act enacted more than 100 years ago.

Not only is a proud tradition involved here, so is statistical proof that the family farm compares very favorably in efficiency and production with corporate farms many times the size.

An article I recently read quoted Confucius as saying that "The best fertilizer is the footsteps of the landowner." That applies today perhaps even more than it did when it was originally stated. A farm family which toils on their land for the fifteen to eighteen hours a day is bound to be more productive than the corporate operations which pay a disinterested operator to put in his eight hours on a piece of land before going home. All the fertilizer the land can stand can't make up the difference between two such differing operations.

Mr. Chairman, this is why I am so enthusiastic about the concept represented by the Young Farmers Homestead Act. This country cannot afford to be without such an Act for much longer. We need to stop the incredible trend toward vertically integrated food operations which control our agriculture system from the cow in the barn to the butter on the table.

I am convinced that we can stop it, too. We can stop this kind of development by giving an increasing amount of attention to legislation like S. 2589. We can help stop it by bringing in some of the undeniable agricultural experts, as you have done here, to inform the Congress on how significant the problem is and what can be done to solve it.

As one of the original sponsors of the Young Farmers Homestead Act, I believe that this legislation provides one of the most positive and constructive approaches to providing a solution to this problem. The bill has a great deal to recommend it. Giving farmers a chance to acquire land by leasing and then purchasing it later is a remarkably practical way in which to give young farmers an opportunity to compete against the heavy odds stacked against them today.

We have said from the start, however, that we did not intend to provide all of the answers by sponsoring this legislation. As the Chairman has so aptly stated, this proposal is not inviolate. Many excellent ideas have been discussed as a result of the introduction of this legislation and I join with the Chairman in welcoming new and innovative suggestions for improving the bill.

One innovative suggestion which was recently presented would guarantee a young farmer's repayment capacity and thereby solve part of his loan acquiring problem.

Under this method, instead of having the government purchase the land, it would instead guarantee two different kinds of entry into farming. The first would be where a seller sells his own farm on a contract for deed basis. This method has become increasingly popular because of the tax advantages to the seller. I am told that 60 per cent of farm sales in the upper Midwest are made this way. The government would guarantee the payments on such a contract, and if necessary, credit for loans for operating purposes as well. In the second case, the government would guarantee lease payments and operating credit if needed to young farmers who were leasing.

Although this is a minimalist approach, it does offer the opportunity for further consideration of yet another option. It is my understanding that Minnesota has successfully implemented a plan similar to the proposal described above.

Mr. Chairman, I heartily commend your efforts to assist our young farmers. The Young Farmers Homestead Act is perhaps the best ray of hope yet to the American people that the future of the small farm which has been a cornerstone of the American way of life, will be guaranteed indefinitely.

STATEMENT OF C. K. CARDWELL, DEPUTY GOVERNOR FOR CREDIT AND OPERATIONS,
FEDERAL FARM CREDIT ADMINISTRATION

Mr. Chairman and Members of the Subcommittee on Agricultural Credit and Rural Electrification, my name is C. K. Cardwell, I am Deputy Governor of the Farm Credit Administration, which as you know, is an independent Federal Agency responsible for the regulation, supervision and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit

System. The System provides credit and closely related services to farmers, ranchers, producers, and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses providing farmers with services essential to their on-farm operating needs.

I appreciate the opportunity to appear before this Subcommittee and applaud your committee for taking interest in seeking ways to assist young farmers.

The Farm Credit System has a long standing interest in young farmers and has traditionally served young farmers. As a cooperative lending system our lending institutions have long recognized that the future of agriculture depends upon the success of young farmers.

Interest in serving young farmers in the Farm Credit System has resulted in the development of specific actions to provide sound credit to finance beginning farmers.

In 1969-70 a Commission on Agricultural Credit, which provided this Committee with a complete copy of its report at the time of the development of the Farm Credit Act of 1971, addressed the issue of serving young farmers. This commission suggested that it should be a goal of the Farm Credit System to "provide greater opportunity for competent young farmers to obtain adequate amounts of credit consistent with sound lending practices while recognizing the well-being of the applicant and reasonable protection for the lender."

Following the implementation of the Farm Credit Act of 1971, a major undertaking by the Farm Credit System, a conference of young farmers was held in February of 1974 in Indianapolis, Indiana to discuss financial obstacles to getting started in farming. This conference provided a helpful insight into the problems young farmers encounter in the early years of farming. A summary report of the conference is attached to this statement for your review.

In response to the findings of this conference the Federal Farm Credit Board established a System objective for financing young farmers. This objective urged the district banks and associations to develop specific programs to assist in the financing of young farmers. Amendments to the System's regulations were made to facilitate this objective. Most of the Farm Credit districts now have district policies for financing young farmers with a varying degree of program implementation in this area.

The Farm Credit System is currently assisting many young farmers with financing. A review of existing data on farmers currently being served by the Farm Credit System revealed the following observations:

The most recent agricultural census shows that 12% of the farmers were under 35 years of age, whereas within the Farm Credit System, about 25% of the borrowers were under 35 years of age.

While 17% of all Federal Land Bank borrowers in 1975 used second mortgage financing about 28% of the young farmer group (less than 35 years of age) used second mortgage financing.

About 7% of all Land Bank borrowers had either joint or subordinated loans with the Farmers Home Administration while 15% of the young farmers served by the Land Banks used this method of financing. We believe our programs of working with FmHA are working well and are helping entry farmers. Improvement could be made in the Farmers Home Administration guarantee program to further assist young farmers through the Farm Credit System.

Young farmers were highly leveraged as almost half of the young farmers had debt to asset ratios of 50% or more whereas only 25% of all borrowers had such debt to asset ratios.

In spite of high leverage, the percentage of farm income used for annual debt payments of young farmers did not differ significantly from all borrowers.

With regard to the Young Farmers' Homestead Act—S. 2589—we have reviewed this proposal with interest. This program for assisting entry farmers has been reviewed by the Federal Farm Credit Board and has been discussed within the Farm Credit System. The Federal Board, as previously stated, is very interested in encouraging the System in working with young farmer and entry farmer programs and is pleased that the committee is considering this problem facing agriculture. We have some concerns about the specific proposal under discussion today and offer the following observations as constructive criticism for the benefit of the Committee as it reviews this proposal.

We assume that the committee will develop clearer definitions of a young farmer (age, net worth, net income, etc.). Permissibility of off-farm work or the operation of additional farm units should be discussed to prohibit speculation.

Of major concern is the basic assumption of this legislation that there will be

continued rapid inflation of land values to provide for the development of an equity base for a young farmer. We are concerned about Government support of a concept based on inflationary rises in land values and doubt that it is a sound business principle because it provides equal support to both good and poor management. Starting young farmers in a business based on the assumption that inflation will create their success does not provide a favorable basis upon which to make good financial decisions. Such decisions should instead concentrate on selection of young people with high potential.

Currently farmers are finding it increasingly difficult to make needed land purchases for expansion of farm units to assure viable enterprises. This program could have the effect of creating the entry of an additional market force which would intensify this problem by providing excessive competition for a fixed resource with the resultant price escalation effects.

The financing of young farmers requires a large outlay of funds for operating as well as capital needs for farm units. We are concerned that this proposal may not adequately address the young farmer's short and intermediate term capital needs upon entering agriculture. In this bill the placement of a lien on crops by the corporation would deter lenders, other than the Farmers Home Administration, from loaning operating money; thus discouraging a gradual transition to conventional financing.

Without major controls on eligibility and resale, the purchase of the land by the government may provide a special opportunity for speculators to gain through this program.

Farming today requires large amounts of capital plus major management skills and capabilities. Land ownership is only one method of entry into agriculture. We urge the Committee to make a full review of this proposal and hope additional programs can be developed to assist aspiring young people seeking to enter agriculture as a career.

Mr. Chairman, we thank you for the opportunity to present this statement. We shall be pleased to respond to any question that you or the members of the committee may have and offer our further assistance as you work on legislation in this regard.

FINANCIAL NEEDS OF YOUNG FARMERS

SUMMARY REPORT, CONFERENCE ON FINANCIAL NEEDS OF YOUNG FARMERS,
FEBRUARY 25-27, 1974, INDIANAPOLIS, IND.

On February 25-27, 1974, one hundred and five of the nation's top young farmers met in Indianapolis, Indiana, to discuss financial obstacles to getting started in farming. This is a summary of financial problems they said young farmers encounter, with some alternatives they suggested for solving them—in effect, their advice to today's and tomorrow's farmers and their lenders.

The Conference was called by the Farm Credit System whose Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives sponsored participants, along with the four national farm organizations—American Farm Bureau Federation, National Farmers Union, National Grange, and National Farmers Organization. The Farm Credit System, as with most others in agriculture, has been concerned over the declining number of young men in farming.

The Commission on Agricultural Credit, a blue-ribbon panel of farm leaders, in 1970 urged the Farm Credit System to give special attention to young farmers' credit needs. And the ensuing Farm Credit Act of 1971, primarily through liberalized restrictions on Federal land bank lending, did permit the Farm Credit banks and associations to go further in financing beginning farmers.

This Conference was called to learn firsthand from these successful young farmers what financial difficulties they encountered in their early years in farming and how they overcame them. The sponsors hoped to learn not only what farm problems most concern them today and what financial aids they need to maintain successful farm operations, but also what financial aids they would need if they were starting out in the farming business today. This insight will assist Federal Land Banks, Production Credit Associations, and other lenders, to adjust present lending practices and possibly initiate new services to meet more effectively the young farmer's special needs.

Young farmers attending the Conference represented 40 states and Puerto Rico. Their average age was 33 and most of them had been in farming about ten years. The following is a summary of financial and related needs as they stated them in small discussion groups.

YOUNG FARMERS' FINANCIAL NEEDS

1. *Adequate Credit "to get the job done."*—The consensus of the Conference was that lenders should help enable qualified young men with limited resources to get started in farming. As one young man put it, "We have certain financial requirements when we begin farming, and we don't need just 70 to 80 percent of these requirements. We need it all."

There was criticism of lenders who emphasize only collateral in making loans. The comment was made that, "Lenders emphasize collateral rather than capacity, and this isn't right. Lenders should provide a program for advising and financing young farmers with credit officers who are specialists in working with young farmers."

The group said one of the problems is that young farmers are treated by lenders the same as all other farmers. Lenders often lack an understanding of young farmers' goals, objectives, and abilities.

Many of the young farmers asked lenders to provide special loan programs to finance entry into farming. But they were careful to say they were not asking for a handout. They recognized that, "A 23-year-old young farmer presents a serious financing problem. Often he can't get credit because the lender is afraid to make a bad loan."

Greater lender control of the farming operation was suggested as a possible approach for obtaining adequate credit. As one discussion group reported, "The young farmer would be willing to work closely with the lender on management of the operation. During this period, the lender would keep in close contact and give advice when important management decisions are to be made."

Several young farmers observed that supervisory agencies often put pressure on local farm lenders if they have many marginal loans. In a local situation, they said, young borrowers should not be deprived of a loan as a result of where they live or because a lender already has a number of marginal loans.

"We recommend that farm lenders set aside a certain percent of money for high risks," one discussion group urged. "This money could be used to help young farmers get started who lack the necessary financial stability needed to secure a good loan, and to provide 100 percent financing in certain circumstances." Still another suggestion was to provide an insurance fund for high-risk loans to young farmers.

2. *Credit Terms Tailored to the Young Farmer's Situation.*—Conferees requested loan terms that recognize their shortages of capital in the beginning years. One suggestion was that terms defer payment on the principal of a loan "on breeding cattle loans up to three years and other farm enterprises that require more than one year before they start generating cash." Lenders might provide such other terms as "balloon payments" at the end of some real estate financing.

Farm lenders were requested to provide beginning young farmers low-equity financing—up to 90 or 100 percent financing to a qualified young man. They recognized there is an added cost to high-risk financing and indicated a willingness to pay the price. The view of many in the group was that low-equity borrowers would be ready to pay a higher interest rate in order to get financing.

Although calling for special loan terms which recognize their problems, the young farmers did not ask for a give-away program. As one young farmer stated it, "There still should be a reasonable repayment of debt."

Farm lenders also were urged to consider leasing programs as additional means to help young farmers. It was suggested, for example, that "Federal Land Banks consider purchasing land and then leasing or selling the land to beginning farmers on contract. Production Credit Associations might get into machinery and livestock leasing programs."

3. *Business Counseling and Financially-Related Services.*—The Young farmers said they need help with important business decisions and asked lenders to provide a number of professional counseling services. Among them were legal counseling, insurance planning, record analysis, tax guidance, and financial management.

Lenders should have on their staffs, some of the young farmers said, management specialists who can analyze their operations and put their fingers on potential problems. In addition to offering helpful suggestions, the lender should make available related services that are appropriate, and can be provided effectively and efficiently. On the other hand, some concern was raised that specialized agricultural credit services not be jeopardized by excessive concentration on other services.

A number of young farmers suggested lenders assist with such business arrangements as leases, contract partnerships and family corporations and with estate planning. They asked lenders to help evaluate their insurance programs and advise on what insurance is needed for the beginning farmer.

Conferees said lenders could be of significant help in the job of "passing on from father to son an ongoing farming operation." Similarly, they were of the opinion that lenders could help a young farmer trying to get into the business make contact with an older farmer wanting to sell his farm.

About half of the young farmers were using electronic farm record keeping programs in their farm operations. They said lenders could be of considerable assistance in helping analyze their farm records and in planning major management decisions.

The conferees acknowledged that there are additional costs to the lender in providing such services. And they said they would be willing to pay for them.

4. *Better Lender-Borrower Communications.*—The conferees voiced an almost unanimous view that lines of communication between lenders and young farmers are weak and need improvement. Most of all, they want lenders to make "on-the-farm visits."

As one discussion group stated it, "We want to emphasize that progressive, skilled young farmers want the lender to visit them on the farm and become personally aware of their operation. During these visits, the lender can help the young farmer with financial planning. A good lender works with the beginning farmer as well as the established borrower."

Another group put it this way—"Credit managers need to spend more time with the prospective young-farmer borrower; more personal attention. This would help close the communication gap."

Also in the area of communications, several young farmers asked that if a loan application is turned down the young farmer should be told why and given advice on how to improve the application. He should be informed of any appeal procedure for a hearing on his credit "turn down."

5. *Need for Better-Trained Lenders.*—Throughout the Conference discussions, a number of the young farmers expressed desires for lenders who are more up on the latest farming methods and who can give sound financial advice. In general, they asked lenders for better-trained, more knowledgeable credit men to work with them.

Farm finance officers should be full-time in the business, a young farmer commented. They should be forward-looking and willing to accept changes in farming and marketing.

One discussion group described the local farm lender as "a very important individual." Another group said, "He should be able to determine what a sound, potentially successful credit application should be. And he should be able to assist us in making capital investment decisions, such as whether to purchase a new tractor or to use credit for fertilizer, purchase land, or other production units such as cattle."

6. *Greater Cooperation Between Lenders.*—Competition and a lack of cooperation among farm lenders, in the view of some of the young farmers, works to their disadvantage. They urged lenders to work together in trying to help qualified young farmers get started. In the Farm Credit System, for example, they asked that the Federal Land Bank Associations and Production Credit Associations develop a financing package for a young farmer, preferably with one loan officer handling all the credit arrangements.

When lenders are unable to provide all of the financing that a young farmer needs, they asked that lenders help find additional financing—the amount the lender can't provide. In brief, they asked all farm lenders—Farmers Home Administration, PCA, Land Banks, commercial banks, insurance companies, and individuals—to work together in the best interest of the young farmer.

In addition to these six needs the Conference identified as major problems for young farmers, the group listed several others they considered important. They asked that lenders strive to expedite the processing of loan applications so that farmers can know where they stand with their financing. They urged mortgage lenders to use up-to-date land values in appraising farms for a loan.

Addressing themselves specifically to the Farm Credit System, several young farmers urged local associations to develop a greater appreciation for beginning farmers and their financial problems. They suggested that more young farmers be elected to local Federal Land Bank Association and Production Credit Association boards of directors. Another suggestion was that local boards establish

advisory committees of young farmers as a communication link. Local boards of directors were asked to find ways to provide input from young farmers on a regular basis.

PROBLEMS WITH FARMERS

In addition to identifying financial problems in getting started in farming, the young farmers discussed general farm problems which give them concern about the future of agriculture.

1. *Land—High Prices and Availability.*—The conference of young farmers was virtually unanimous in the view that land is overpriced for purposes of farming. They reported that across the country land prices are being pushed sharply upward by nonfarm buyers (for development and speculation) and by the big operators. The strong pressure on prices moved one discussion group to ask, "Will rental of land be the only way young farmers can begin farming?"

But more disturbing to the young farmers than the price of land was the question of availability. Many of them recounted recent incidents in their communities where farm land had been purchased by urban buyers and withdrawn from farm production, often through neglect.

By a show of hands, the young farmers were nearly unanimous in their view that legislation will be needed to assure the continued availability of good land for farming. Zoning in rural areas was reported by many as not adequately reflecting the need for protecting prime farm land for farming only. They expressed the need for farmers to become involved on planning and zoning boards.

2. *Marketing Farm Products—Markets, Transportation, World Trade.*—Many of the young farmers expressed doubts about their abilities to effectively market their farm products. They commented that they had been trained by the schools and agricultural colleges largely in how to produce food effectively but had received little training in effective marketing. They asked for training programs that would equip them with skills in this area of their farm business.

Most had had only limited experience with contracts and hedging, indicating it was "not for neophytes or the unskilled." Several young farmers asked for better current market information and discussed merits of a "money checkoff system to promote sales and marketing of our products in all areas."

Foreign sales of farm products were largely recognized as important to farm markets. Several suggested the U.S. work toward freer trade in the world markets with a minimum of export-import controls.

Transportation was recognized across the country as a major marketing problem. The movement of goods both in and out of rural communities is often hampered by an inadequate transportation system.

3. *Environmental Controls on Farming.*—Numerous young farmers commented that environmental protection regulations on farming are a problem for them now and they are worried how they can carry the burden in coming years. "We recognize the need for regulation, but there must be an agricultural input in the design and implementation of these controls," one young farmer stated. Frequent changes in environmental standards that make major agricultural investments prematurely obsolete create unnecessary burdens.

Conferees said controls on use of chemicals in producing and processing food products often are harsh and imposed by people who are not responsible for the potential financial loss to the producer. "We want equal treatment through tax breaks and other means of sharing the costs of pollution controls," one discussion group said. They urged young farmers to get involved in setting environmental controls, "So we can live with the rules."

4. *Consumer Understanding of Farmers' Problems.*—The lack of understanding of farming among the majority of Americans was recognized as a major problem for a stable, profitable agriculture. Most discussion groups expressed the view that the general public fails to understand the time lags in farm production cycles and the importance of prospects for a profit in farmers' decisions to increase or decrease production.

The group pointed to a need for educating the consumer about the economics of farming. They were of the opinion that the public is not getting adequate or accurate information on current farming conditions. "Farmers must make a greater effort to tell their story to the consumer," was the conclusion of many of the young farmers.

In addition to these four concerns, the Conference discussed problems of unstable farm prices, shortages of farm supplies, inflation, and continued availability of credit.

WHO ARE THE TOP YOUNG FARMERS?

Virtually all of the young farmers were married and more than half have a college education. They started farming on average ten years ago with assets of \$30,000 about equally divided between equity and debt capital. But they were able to greatly expand their earning capability beyond that provided by the meager financial resources by renting and jointly operating other farms. In fact, for each \$1 of their own equity, they were associated with or controlled nearly \$6 of other farm resources including land, machinery and livestock.

Today, their assets total over \$300,000 of which nearly three-fifths represents their own equity. Rapid progress between 1963 and 1974 was due to inflation (especially in land values), nonfarm income—earned partly by the wife, and gifts and inheritance. However, less than one-fifth of these farmers reported gifts and inheritance in the past ten years. Thus, most of their financial progress was due to their own efforts and decisionmaking abilities.

When they started farming, parents, relatives and friends were their single largest source of credit. Today, with debts averaging about \$130,000, the largest single source of credit is the Farm Credit System.

CONFERENCE FORMAT

The Indianapolis meeting was designed primarily as a "listening conference." The young farmers spent over six hours in small group discussions where they discussed their farm financial experiences. Several farm and credit leaders also participated, primarily to stimulate discussion and focus attention on agricultural questions. Secretary of Agriculture Earl L. Butz addressed the group on "Decisions for Opportunity in Agriculture." "The Future of Farming" was the topic of Representative Jerry Litton, of Missouri, member of the House Agriculture Committee.

Two agricultural economists presented papers for discussion. Dr. Richard L. Feltner of the University of Illinois highlighted "Economic Problems and Opportunities Facing Farmers" while Dr. John R. Brake of Michigan State University reported on "Problems Young Farmers Face in Getting and Managing Capital." A panel of farm lenders related "Our Experiences in Lending to Young Farmers," after which a panel of young farmers reported on "Our Experiences with Lenders."

Co-chairmen of the meeting were Steve Brown, a young farmer from Frankfort, Indiana, and W. Malcolm Harding, Deputy Governor of the Farm Credit Administration. Other participants included officers of the Federal Land Banks, and Banks for Cooperatives; representatives of the farm organizations; and staff members of the Farm Credit Administration.

The young farmers reported conclusions on their financial and related needs, as summarized above, at the closing session. E. A. Jaenke, Governor of the Farm Credit Administration, assured the conferees their comments would be reported not only to the Farm Credit System but to other farm lenders, farm organizations, agricultural committees of the Congress, appropriate Government agencies, and others who may have an interest in what young men need today to succeed in farming.

The FCA Governor also requested the Farm Credit Bank officers who attended the Conference to review Federal Land Bank and Production Credit Association services to young farmers in light of the needs expressed at the Indianapolis meeting. He asked them to develop recommendations on how the System might improve young farmer services for consideration by the Federal Farm Credit Board at its next regular meeting in April.

[The following information was referred to on p. 17:]

SUMMARY—YOUNG FARMER SURVEY

1. Average Age=32.69.

Approximately 3,000 questionnaires sent to members and nonmembers. 553 returned the questionnaire for a return rate of 18.4%.

2. Counties represented: Aurora, Beadle, Bennett, Bon Homme, Brookings, Brown, Brule, Buffalo, Butte, Charles Mix, Clark, Clay, Codington, Corson, Davison, Day, Deuel, Douglas, Edmunds, Fall River, Faulk, Grant, Gregory,

Haakon, Hamlin, Hand, Hanson, Harding, Hughes, Hutchinson, Hyde, Jackson, Jerauld, Jones, Kingsbury, Lake, Lawrence, Lincoln, Lyman, McCook, Marshall, Meade, Miner, Minnehaha, Moody, Pennington, Perkins, Potter, Roberts, Sanborn, Shannon, Spink, Sully, Tripp, Turner, Union, Walworth, Yankton, Ziebach, Boyd County, Nebraska; Richland County, North Dakota.

3. Are you in a farming partnership? Yes=208 or 41%, No=301 or 59%.

4. Do you rent land? Yes=431 or 81%, No=101 or 19%.

Average acreage rented (of those only renting)=646.38.

Average acreage rented (who also own land)=561.36.

Total acreage rented=250,227.83. Average total rented=588.77.

About half of all respondents who indicated that they rent were on some type of a share crop basis for at least part of their acreage.

The average cash rent being paid by the recipient is \$14.60 per acre. The rental rates ranged from a low of \$1.50 per acre to a high of \$60.00 per acre.

5. Do you own land? Yes=369 or 67%, No=178 or 33%.

Average acreage owned (of those also renting)=543.01 acres.

Average acreage owned (of those who only own)=663.02 acres.

Total acreage owned=210,756.80 acres.

Total acreage farmed (rented, owned, or both)=460,984.63 acres.

Average total acreage farmed=891.65 acres.

6. Is this amount adequate for farming in your area? Yes = 277 or 46%, No = 265 or 54%.

7. If you have purchased land, when did you buy?

Ranged from 1954 to 1975, largest number of purchases = 1973, average = 1970.

8. In percentages, how much did you have to put down on the land?

Average amount down = 25%.

9. Do you desire to own farmland? Yes = 511 or 93%, No = 40 or 7%.

10. What are average land prices in your area?

Average price per acre = \$320.25.

Prices ranged from \$30 per acre to \$1,300 per acre.

11. Is there land for sale in your area? Yes = 335 or 64%, No = 186 or 36%.

12. Have you ever attempted to secure money for the purchase of a farm? Yes = 328 or 63%, No = 196 or 37%.

13. Did you try at a federal agency (FHA or Land Bank)? Yes = (FHA) 245 or 64%, (Land Bank) 113 or 29%, No = 37 or 7%.

14. Did you try at other institutions, locally? Yes = 168 or 53%, No = 150 or 47%.

Sources mentioned: P.C.A., Local Bank(s), Individuals.

STATEMENT OF CHARLES L. FRAZIER, DIRECTOR, WASHINGTON STAFF, NATIONAL FARMERS ORGANIZATION

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to comment on provisions of S. 2589, the Young Farmers Homestead Act of 1975. It should first be noted that there is a need for financing to enable additional young couples with a background in farming and ranching to own and operate their own units, in addition to commercial and government sources now available. Although the Board Members and Administrators of the Farm Credit system and the Farmers Home Administration have undertaken to meet this challenge, there are a number of young people who are perfectly capable of operating efficient units but who are leaving the farm communities today because of the tremendous capital requirements involved in ownership. Some of them cannot qualify for enough credit to handle the purchase of land, machinery and livestock even though they are quite capable.

You are to be commended for undertaking to meet this need and particularly for having drafted a bill that extends a reasonable opportunity to some of these young farmers and ranchers without incurring any great expense or risk of loss to the American taxpayer. The lease and purchase arrangement would fill a big gap in the credit sources now available.

The problem of many of these young couples is perhaps analogous to the situation faced by others who also aspire to enter the business world. In the "old days", an ambitious young man would start a small business on his own with a minimum of capital and a lot of his own labor—with good luck he could expand and build it into an operation of respectable size over a period of years. Today he faces a severe form of competition from the large chains, the franchise operators

and a system of distributing manufactured products that almost precludes his entry into the business field in anything except the service industries.

I use this analogy to illustrate a problem in farming. Although, thankfully, we do not yet have super-chain or franchise farming in the case of most of our major commodities, it must be acknowledged that in many of our highly productive areas, the land is now in strong hands.

One should not necessarily attribute this to greed or the old-fashioned joke about the farmer who only wanted to own all the pieces of land adjoining his own—it must be recognized that the tremendous outlays that are necessary for modern machinery, energy, chemicals, labor and interest, coupled with the risks of wildly fluctuating commodity prices, have forced many of our farm operators to undertake questionable expansion of their units. Regardless of whether many purchases are wise, they have occurred and they have increased land prices dramatically. In some instances, I suspect that they have bid against one another simply because they were in a position to finance additional land purchases, but knowing all the time that the price being paid could not be justified by current commodity prices.

The breadth and serious nature of this problem was anticipated in a conference on the financial needs of young farmers conducted by the Farm Credit Administration in February, 1974. In that Conference, Professor John K. Brake of Michigan State University, predicted: "It seems likely that in the coming few years we will continue to see violent price fluctuations both in some of the resources we need for farm production and in the prices of many products we produce . . . these fears are not improved by what our government tells us, because the government itself has a substantial credibility problem . . . I suspect we will continue to see periodic shortages of important resources required in farm production."

We had some young farmer members in that conference. They verify the urgency of new credit arrangements if we are to have sufficient entry by young producers to maintain the industry.

Even though the Federal Land Bank in 1974 made 24.4% of their loans to young purchasers who were 34 years of age and younger, they loaned only 17% of their funds to this group. Another 27% of the funds went to the group in the 35-44 year age bracket. The joint loans made by the FCA units and FmHA agents were commendable but not the whole answer.

LAND PURCHASES

There are provisions in the bill that are particularly deserving of favorable comment. The provisions of Section 7 relating to purchase and leasing of these lands seems to be framed clearly to establish that the government will not plunge into the real estate market in any given locality, bidding against farm operators who may really need additional land to constitute economic units of their own. The language of the provision appears to assure that the corporation would be a standby purchaser at appraised current market values. I would assume that testimony in this hearing and any report that accompanies favorable action on the bill would make it clear that appraised values to be established for purposes of this program should relate clearly to the value of the land as a farm production unit. I would recommend the use of this program in those communities where speculative development is not a factor. These leasing arrangements and purchasing opportunities should be made available to young couples who show some evidence of interest and success in agricultural production. The program should not be made a vehicle for recreational development or business ventures of a non-farming nature.

LEASE AND SALE ARRANGEMENTS

The provisions relating to the selling prices of the farm unit are especially well designed. Section 8(c) guarantees that the land will be sold at no less than the original taxpayer investment. This requirement, coupled with the vesting arrangement that will discourage speculative planning on the part of the purchaser and an established interest rate designed to recover the government's costs, extends a fair deal to the young purchasers.

Our reservations or points of caution relate to the use of the program rather than specific provisions of the bill. Perhaps the language of the bill need not be modified, but the thrust of the legislation and its accompanying report should caution the administrators to avoid entering the real estate market in

those areas where the demand for land has pushed prices to exceptionally high levels. By the same token they may not do young couples any particular favor by encouraging them to start farming on land of marginal productive capacity. In other words, the purpose of the program may be best served by offering the lease and purchase arrangement in communities where the average age of current operators is high, where there are a number of young farmers with some training and experience, and where fairly productive land is available at reasonable prices.

FARM INCOME AND OFF-FARM EARNINGS

It is suggested that you limit the availability of the program to those young couples who will either live on the land or in a residence close-by in order to improve their chance of becoming successful farmers or ranchers.

Farm production expenses increased by \$13 billion or 25% in 1973 alone. In 1960, farmers and ranchers earned only 42% of their income from all sources off the farm (about \$8.5 billion). To cope with inflated costs of operation however, the non-farm income amounted to \$17.4 billion, or 51% of the total farm income, by 1970.

The rate of increase of operation may have slowed, but so have commodity prices. In this lease and purchase program, it would appear unwise to preclude the young operators from outside earnings. Steps should be taken, however, to assure that it is offered to potential users who intend to derive their principle income from farming or ranching. It should not be regarded as a source of income supplemental to some other earning activity.

PUBLIC ACCEPTANCE

Perhaps it should be recognized that a number of farmers or ranchers who now have economic units and plans to convey them to the next generation will resent having the government purchase land in their communities. Their recent experience in commodity programs, export embargoes, regional land use planning efforts and other Government endeavors of questionable character have provided a reasonable basis for concern about vacillating policies coming out of the Government. Those who do not need this program will, of course, be slow to accept it.

There are some older farm owners, however, who may need to seek a buyer as they near retirement and need their funds for another home. This program would offer a means of transferring ownership to the younger generation in a manner that neither could afford in its absence.

There is a broader consideration—one of national policy. Some authorities who have analyzed the tremendous current costs of land ownership and farm operation have concluded that food production must inevitably be financed on a continuing debt basis. This attitude accepts the view that the farming unit must be continually expanded, that no single generation can ever pay it off and that in all probability farming will evolve into a system in which one set of individuals owns the land while another serves as large and efficient tenant operators.

I am not ready to buy it. That policy will not be in the best interests of all our people. It is not in keeping with the spirit in which the farming communities developed throughout our short history. It does not promise stability in those local communities or continued existence of the social structures we regard so highly. An effort must be made to continue the operation of reasonably sized units owned and operated by people who are proud of their land and want to take care of it.

In summary, my comments are designed to encourage more thought and discussion of the bill. There is a definite need for additional financing for those young persons who want to farm but who are not able to marry or inherit going farm operations. At this time I have not had any wide-ranging comments from members of the organization. Many of them are not familiar with this legislation at this time. It occurs to me that both the provisions of the bill and the need for such legislation deserve the fullest consideration.

[The following material was submitted by Mr. Eken:]

SUMMARY OF FAMILY FARM SECURITY ACT, H.F. 1984 (S.F. 1895)

The Family Farm Security Act is designed to enable qualifying farmers to obtain loans for the acquisition of farm land. The state will guarantee 90% of

the outstanding balance due on a real estate mortgage and will provide state funds for deferral of a portion of the annual payment. A section-by-section summary of the bill follows:

Section 1: States the purpose of the bill: to aid young farmers in obtaining credit for the acquisition of farm real estate by providing state money in guarantee of loans.

Section 2: Defines terms. The bill defines "Lender" to include national or state banks, savings and loans, trust companies, insurance companies, Farm Credit Administration institutions, and, in some cases, individuals who are selling a farm. Also defined is "family farm loan guarantee": an agreement that in the event of default the state shall pay the lender 90% of the sums due and payable under the mortgage. Another important definition is "payment adjustment," meaning an amount of money equal to 4% interest on the principal balance of a family farm security loan.

Section 3: Concerns administration of the law. The family farm security program is to be administered by the Commissioner of Agriculture, who is given rule-making authority.

Section 4: Establishes a family farm advisory council to make recommendations to the commissioner regarding loan applications; to review and appraise the program; and to make general policy recommendations. The council is to consist of seven members: two officers of commercial lending institutions, three farmers, one director of a farm credit association, and an agricultural economist.

Section 5: Describes eligibility requirements for the family farm security program. Loan approval may be granted if:

- (1) the applicant is a state resident, or intends to become one;
- (2) the applicant has sufficient education, training, or experience in the type of farming for which he wishes the loan, and agrees to participate in a farm management program for the duration of the loan;
- (3) the applicant, his dependents and spouse have total net worth valued at less than \$50,000 and have demonstrated a need for the loan;
- (4) the applicant intends to purchase farm land to be used by the applicant for agricultural purposes;
- (5) the applicant is credit worthy according to standards developed by the commissioner.

Section 6: Describes the procedure to be followed in the family farm security program. The applicant first goes to a lender and makes application for a loan. The applicant and lender then complete and forward the application to the commissioner for approval. The commissioner is to develop a screening process to determine eligibility. If the commissioner approves the application, he retains a copy and returns the original to the lender, and the lender and the applicant then complete the transaction for the loan. If the commissioner does not approve the loan, then the application is returned with a statement of reasons for denial.

Approval means that 90% of a loan may be guaranteed by the state; thus, a successful applicant could get a loan from the lender with a reduced down payment. In addition, the commissioner may make a payment adjustment of 4% of the outstanding balance of the loan (see Section 7).

In the event of default on a guaranteed loan, the buyer has 180 days to cure the default. After that time the lender may file a claim with the commissioner. If the commissioner determines that default has indeed taken place, he shall pay the lender the balance due in exchange for the lender's security and interest in the loan. At this point the commissioner may commence foreclosure proceedings. If the state acquires title to the property, taxes shall be levied and paid on the land as though the owner were a natural person.

If foreclosure takes place and title to the property is acquired by the state, the commissioner must take certain steps to sell the property. Advertisement must begin within 15 days of the expiration of the redemption period allowed by law, which is usually one year from the date of foreclosure in the case of farm property. The sale must be advertised for four successive weeks and then, within 15 days of the last advertisement, the property must be sold to the highest bidder.

The loan guarantee shall be void only if the guarantee was obtained by fraud or material misrepresentation of which the lender had actual knowledge.

Section 7: Discusses the terms of the loans. Loans must be transacted on forms approved by the commissioner. The commissioner is to establish an appraisal procedure and must determine the value and income potential of the

property before guaranteeing a loan. No guarantee can be issued if the purchase price exceeds the appraised value.

Subdivision 2 of this section authorizes the "payment adjustment". This is a method of reducing the applicant's cash flow burden in the early years of his farm acquisition. During the first ten years of a family farm security loan, the commissioner shall pay to the lender on the applicant's behalf an amount of money equal to 4% of the outstanding principal balance due. Thus, if a loan carries an interest rate of 9%, the applicant pays 5% interest and the state pays 4%. The payment adjustment can be renewed for a second ten-year period. The payment adjustment must be repaid to the state in year eleven, unless the adjustment was renewed for a second ten-year period, in which case the money must be repaid in year twenty-one. The obligation to repay is a lien against the property. To qualify for a payment adjustment the loans must have a maximum term of twenty years.

The applicant, his dependents and spouse must annually submit a net worth statement. In any year in which their net worth exceeds \$100,000, the applicant is ineligible for a payment adjustment in that year.

Section 8: Provides authority for inclusion in the program of a special type of loan, called a "seller-sponsored" loan, if the buyer meets the eligibility criteria. Similar to a contract-for-deed, this type of loan is financed in part or whole by the seller of the property. A conventional lender finances the remainder of the loan, if any. Seller-sponsored loans are to be secured by a purchase money first real estate mortgage, evidenced by negotiable notes. The seller's note and the conventional lender's note may carry different interest rates.

Section 9: Governs the sale of property covered by a family farm security loan. If an applicant sells the property, he must immediately liquidate all debt on the property owed to the lender and commissioner. Family farm security loans are not transferable or assumable.

If an applicant fails to maintain the land covered by a family farm security loan in active agricultural production for a period of time longer than one year, the loan is considered to be in default, unless the applicant becomes disabled or other extenuating circumstances occur.

This section also contains an increased tax on capital gains realized on property financed by a family farm security loan and sold before the passage of ten years. The rate of the tax penalty varies according to how long the property was held.

Time elapsed from issuance of loan (years)		Percent of gain subject to income tax
At least—	But less than—	
	1	100
1	3	90
3	5	80
5	7	70
7	9	60
9	10	50

After 10 years, the normal capital gains tax imposed by Chapter 290 shall apply. The above tax shall be waived by the Commissioner of Revenue if the applicant has died or suffered a total disability.

Section 10: Prohibits discrimination against applicants on the basis of race, color, creed, religion, national origin, sex, marital status, disability, political or ideological persuasion.

Section 11: Provides that the guaranteed loan shall not apply to the lending limits placed on State-chartered banks.

Section 12: Amends the income tax law to provide for proper imposition of the capital gains penalty tax discussed above (Section 9).

Section 13: Appropriates money:

For a loan guarantee fund.....	\$10,000,000
For payment adjustment.....	800,000
For administration.....	74,300

The sum of all outstanding loans guaranteed at any given time shall not exceed ten times the amount in the loan guarantee fund.

STATEMENT OF E. A. JAENKE, PRESIDENT, E. A. JAENKE & ASSOCIATES, INC.

Mr. Chairman and Members of the Subcommittee on Agricultural Credit and Rural Electrification, two basic questions need to be answered today in these hearings. First—should the Federal Government provide a helping hand to facilitate the entry of young people into farming? And, if so, how should this be accomplished?

I hope, in today's testimony, to help this Subcommittee find answers to these questions, based on my experience in developing a special young farmer program with the Farm Credit System, and from experience with many farm groups, organizations, and cooperatives.

Too many times, witnesses before this Subcommittee have sounded the clarion of "Save the Family Farm" as justification for programs or proposals actually designed for other purposes. However, this time the issue is real—if we earnestly want to preserve family farm businesses as a significant economic and social factor in the United States—young people must have access to farm owner status.

As things currently stand, only the well-off can become farmers. This is a sad circumstance, particularly in light of the frontier spirit which resulted in the settlement and development of this country.

Through the Homestead Act of 1862, much of the Nation's food production capability was harnessed. According to historian Henry Nash Smith, one of the philosophical arguments for that Act derived from John Locke and passed on through Jefferson was, "the only valid title to land was that of the man who applied his own physical labor to its cultivation."

It would be difficult today for us to embrace that idea in total, given the realities of Twentieth Century America, but neither can we deny its attractiveness. Still, we are very much in debt to the spirit, if not the actual works, of the homesteaders. More importantly, the family owned and operated farm business has proven itself as the best economic agricultural production system in the world.

America's farmers are now responsible for our generally favorable balance of trade. In 1974, agriculture's net contribution to our balance of trade was \$11.8 billion, which more than offset a deficit of over \$8.5 billion in the non-agricultural sector.

American consumers only spend about 17% of their disposable income on food—the lowest in any country in the world. Of each consumer food dollar, our farmers only receive 43%.

Strangely enough, American farmers are willing to be the most efficient and productive segment of our national economy for about 10% less income per capita than non-farmers. But today—even while many young men with the necessary skills, experience, and education are aspiring to begin a career in farming—the way is blocked.

The long-term trend in average age of farmers has been alarming. The latest census showed it was 50.3 years. This condition is of great concern for such an important industry. This average age is considerably higher than in other industries.

Acquiring land, machinery, buildings and operating capital on a commercial scale presents a very difficult set of circumstances for a young man in his twenties just beginning to farm than for an established farmer in later years after he is established and wants simply to expand his operation. The average price of farm land in the United States has jumped from \$219 an acre in 1972 to \$403 an acre in 1976. In some States, high quality farm land is selling for \$2,000 to \$3,000 per acre.

Mr. Chairman, everyone in this room knows that farming is not a career which generally makes people rich. However, in these days it takes a rich man to begin farming. Start-up costs are frequently estimated to be around a quarter of a million dollars. Young men with the desire and ability to farm simply cannot come up with that kind of money.

To begin with, farming rarely generates large quantities of cash. Many farmers over a lifetime build a nice estate, but it is all tied up in land, buildings, machinery or livestock and infrequently is there a large cash reserve.

A retiring farmer may be able to turn an economically viable unit over to one son—that is if estate taxes don't force a sale. But what happens to second and third sons who have learned the game at their father's side and possibly have gone on to agricultural college? In too many cases, their plans to return to the farm become economically unrealistic. A career in some agribusiness can be rewarding but it does not satisfy one whose heart is down on the farm.

America needs these talented young men in food production as never before. Existing governmental programs simply are not enough. Last year's land inflation rate of 14% placed a farming career out of the grasp of another crop of young men. They are settling into jobs and careers elsewhere, and it's awfully hard to change directions in mid-stream.

Thus, Mr. Chairman, it is clear that some accommodation or special assistance is necessary if young people are to enter the business of farming in the years ahead.

It was this concern that led to a special effort, while I served as Governor of the Farm Credit Administration, to develop a credit program especially designed to meet the needs of young farmers.

The Commission on Agricultural Credit, in 1970, suggested that the Farm Credit System should have as a goal to "provide greater opportunity for competent young farmers to obtain adequate amounts of credit consistent with sound lending practices while recognizing the well-being of the applicant and reasonable protection for the lender." In 1974, the System held a conference of young farmers to probe into the difficulties these young farmers had had in getting started in farming and to get their suggestions as to what was needed to help more young farmers overcome these difficulties.

Following this conference, the Federal Farm Credit Board urged the district Farm Credit banks to develop specific programs to finance more young farmers. The Federal Farm Credit Board also made two important changes in the regulations under which the Farm Credit banks operate that would encourage the development and implementation of such programs as follows:

"Consideration can be given to special lending programs for young farmers placing emphasis upon sound credit service to those entering farming in a low-equity, high-risk position but demonstrating high management ability and earning capacity, thereby providing service to high potential persons within the broad category of young farmers who might otherwise not have an opportunity to enter into farming. Programs shall limit total lending by a Federal land bank or production credit association to an amount not exceeding five percent of their preceding year's peak loans outstanding.

"Credit review procedures will be issued to bank personnel to facilitate the making of credit reviews and the issuance of reports. Where the bank and/or association have adopted special lending programs (i.e., specialized enterprise financing, young farmer programs, etc.) bank procedures will provide that such loans be classified in accordance with standards prescribed in (a) (4) of this section but that the reports also contain a specific and separate analysis of each special lending program. Such analysis should cover the reasons for the program, the selectivity of borrowers included, the quality of service and control exercised over the loan, relative progress being made by individual borrowers, and the success or failure in meeting the objectives of the program."

I would suggest to the Subcommittee that it give careful study to the Summary Report of the 1974 Conference on the Financial Needs of Young Farmers. These successful young farmers stressed the following points.

The young farmers emphasized the need for adequate credit to get the job done when they begin farming. Without enough credit, they may be faced with almost certain failure. Certainly, the operation must be of sufficient size so the farm family can make a reasonable living.

These young farmers recognized the need for the lender to provide more advice and counseling to young farmers, both as to financial and farm management and maybe even greater control of important farm operating decisions as an offset to the greater risk in providing enough borrowed capital. They also pointed to the need for professional advice from competent financial advisers and their willingness to pay for such counseling.

These young farmers also pointed out that deferring principal payments in the early years would help. The leasing arrangements provided by this bill would, in effect, be doing just that. In fact, these young farmers even suggested that Federal Land Banks consider purchasing land and leasing it to young farmers on contract and that Production Credit Associations might get into leasing machinery and livestock.

The young farmers also urged lenders to work together to help young farmers get started. For example, they suggested the Federal Land Bank Associations and Production Credit Associations develop a financing package for young farmers, "preferably with one loan officer handling all credit arrangements."

It is interesting to note that these young farmers started ten years earlier with an average of \$30,000 of assets—about half covered by debt, chiefly from parents, relatives, and friends—and now had a total of \$300,000 in assets with about \$130,000 represented by debt. The Cooperative Farm Credit System was the largest single source of such credit.

I would urge the Subcommittee to give due regard to the suggestions of these successful young farmers as you perfect this legislation.

There are several other specific points or omissions in S. 2589 that deserve comment.

ELIGIBILITY DEFINITION

The area of eligibility of young farmers needs to be spelled out more explicitly in this bill. I feel strongly that displayed management ability needs to be a criterion for eligibility. This should not be a program for the helpless but instead a helping hand for those capable of meeting the agricultural challenges of coming decades. Other criteria could include age, on-farm experience, and education.

\$200,000 LIMITATION

The proper size and value of the farm unit affected under this bill needs to receive careful study and consideration. The \$200,000 maximum now in the bill may not be large enough in some areas and under some circumstances to enable a young farmer to have a reasonable chance of success.

Perhaps consideration should be given to increasing the maximum value, while at the same time stressing the need to match the young farmer with the smallest appropriate economic unit—considering the individual's financial and personal circumstance.

INFLATION AND SPECULATION

Speculative ventures should not be allowed under this act. In the first place, only bona fide farmers who plan to make a career of farming should qualify. And the 20% capital gains vesting limitation goes a long way toward discouraging participation on a short-term speculative basis. Maybe a young farmer who decides to sell out in the first ten years should be required to sell the farm back to the government so it can go to another young farmer.

One cannot overlook, however, the role of inflation. While inflation of land prices is one major factor which necessitates a government program of this type, under the provisions of this act, inflation during the lease period could help the young farmer build a small amount of equity. The selling price would be set at 75% of the appraised fair market value or the government's purchase price, whichever is larger. On the other hand, if land prices stabilize, the applicant would not benefit from a windfall but, during the intervening seven years, he has been preparing for farm ownership through farming and hopefully building capital through successful operations. Continued inflation of land prices would aid young farmers in this program, but inflation is not critical to this program.

OPERATING CAPITAL

Real estate costs, properly addressed by this legislation, are not the total problem. Generally, one could assume the young farmer would provide some operating capital himself and supplement it with loans from the Farmers Home Administration, a local bank, or the Production Credit Association to acquire additional needed funds. Perhaps some steps should be taken by the administrators to explain this program to local agriculture financiers and to acquaint applicants with these credit sources.

PROGRAM ADMINISTRATION

Care should be taken by Congress to ensure that sufficient specialized manpower is provided to administer this program properly. The Farmers Home Administration, as I understand, has already been granted authority and responsibilities well beyond its manpower means.

Capable and well-trained farm management specialists would be needed to administer this program on the local level. Even with calling on the manpower resources of Farmers Home Administration, Agricultural Stabilization and Conservation Service, Soil Conservation Service, and others, special attention is required to ensure the goals of this far-reaching legislation are reached.

Mr. Chairman, one last point to be considered. There will be political or philosophical charges that this legislation pushes the Government into direct competition with private land purchasers. And it does. But so have many other Government programs where a public purpose was paramount. Both Congress and the Executive have authorized Government agencies to purchase large tracts of urban slums for redevelopment. The Tennessee Valley Authority was in direct competition with other sources of power. The Commodity Credit Corporation purchases farm commodities in direct competition with private food concerns.

In establishing strategic material stockpiles, the Government has directly entered the free marketplace.

In all of these cases, and the many others not cited here, the public benefits were deemed sufficient to warrant such public action.

All would agree that the assurance of an adequate national food supply is of highest public concern.

History shows that a family farm business structure is the most efficient way to obtain that food abundance.

Therefore, Mr. Chairman, there is justification for a Government-sponsored program to assist in preserving a viable family farm system.

[The following material was submitted by Mr. McHale:]

EXCERPTS FROM "TOWARD A PLATFORM FOR RURAL AMERICA," Pp. 23-26

The strength of our agriculture has been based largely on an enormously rich land base, on the skill and hard work of working farmers and farm workers, and on science and technological improvements. We have been profligate with our land resources for several centuries, and the latest fear of those concerned is that the new system of production—high energy and the large scale use of poisons and insecticides—threatens to permanently damage the means of human existence.

As long as there is active competition in a healthy agriculture, the interests of farmers and consumers tend to coincide, and together they have a common interest in seeing that the "middlemen" (the businesses between the farm and the home) do not "rip off" either the producer or the consumer.

There is no satisfactory substitute for the working family farmer either in conserving the land and its fertility or in producing crops, but working family farming is in continuing jeopardy in this country. The total number of farmers reached a peak in 1937 and since then has declined very rapidly. From a total of nearly 7 million farms in 1935 the number dropped to less than 3 million in 1969. In a little over 30 years over 60 percent of the farms disappeared. Most of the farms which disappeared were combined with other units, and most of those lost were below average size. By 1969, 151,000 farmers (5.5%) controlled (by ownership or lease) over half (54.4%) of all land. Corporations (21,500 of them) held 9 percent of the total farm land.

Concentration varies among crops, but there is no doubt that the concentration of control of land and output is growing very rapidly, posing a threat to freedom of entry to the land, to competition and fair prices, i.e., to even more effective exploitation of the consumer. Many people also believe that large scale farming with its heavy reliance on commercial fertilizers, insecticides and other poisons, is a source of increasingly intolerable pollution of the environment, and a threat to the life of the land itself.

Freedom of entry into farming is made extremely difficult for most people when the average investment required per worker was \$54,100 in 1970 compared to \$3,300 in 1940. One respected authority estimates that the initial investment required for a modest commercial farm is about \$250,000.

There is no doubt that many of the farms which have disappeared in recent decades were too small to permit the operators to make a decent living, but there is also no doubt that concentration has already run far beyond the requirements for maximum efficiency and a good living. U.S. Department of Agriculture studies indicate that a farm with a work force of 1½ workers per year is large enough to achieve maximum efficiency in productivity. Beyond that point, the costs of management and paperwork increase, to offset any other gains. The increase in farm size beyond that point is the result of the use of economic power and government production controls which were rigged against the small and moderate size farmer.

The use of economic power includes the power of rich corporations to buy land in large quantities and operate it with relative inefficiency, but it includes much more. Three fifths of the food dollar goes to the middleman, the jobber, processor, distributor, and retailer. Most of that amount ends up in the accounts of a fraction of the businesses in the food industry. For example:

There are 32,000 middle-sector firms in the food industry, but 50 of them pocket 75% of the profits.

Corporation control over just 13 lines of food resulted in price overcharges of \$2.1 billion in one year on the farm supply side, 65 percent of the value of tractor sales go to 2 corporations, John Deere and International Harvester.

The farmer faces great concentrations of power when he buys and when he sells. The combination threatens his survival and the welfare of the nation.

There are other ways in which working family farmers are placed in jeopardy. Corporations can make money on "tax-loss farming"; real estate speculators, riding that old capital gains racket, drive the price of land beyond the point where it can be used for farming; and the government has engaged in a relatively open conspiracy for 40 years to keep a cheap labor supply available to the big operators.

The drive of the big marketing processing corporations to make money and concentrate control of the market leads to "contract farming" which ultimately turns the farmer into little more than a sharecropper. He loses his independence and control of his farm.

This nation's policy toward its land and working family farmers is not a concern of just rural Americans, but it is particularly vital to them because it is the single largest source of employment and its wealth makes up much of the tax base on which rural taxing power rests.

The interests of all rural people can best be served by strengthening the working family farmer as the basic producer in agriculture. Governmental and private policies and actions which jeopardize the family farmer, jeopardize the entire community. (See also Section 3 on Land, Resources and People.)

RECOMMENDATIONS

1. *Reorient USDA.*—The forces which have led to increasing concentration of ownership and control of land and of farmers are complex and cannot be corrected by any simplistic program. The USDA must cease to be the Department of Agribusiness and become what it has always supposed to be, the agency to promote a healthy agriculture and protect the interests of consumers. It is a far cry from that today.

2. *Democratize USDA.*—USDA must be made more responsive to the needs of the majority of farmers and other citizens as contrasted to agribusiness. One recommended device would be to open up the Department to the public through the establishment of Advisory committees representative of independent family farmers, minorities, farm workers, consumers and environmentalists.

3. *Land Grant College Complex.*—Both land grant colleges and the Extension Service must reorient themselves away from their emphasis in recent years, on aiding bigness and high energy farming. More attention must be given to neglected areas like cooperative marketing structures, utility systems, technological displacement, food quality and taste, nonchemical pests control, the cost of agricultural inputs, rural health systems, off-farm employment and rural community development. To the extent that emphasis is on technology, it must be technology geared to the needs of small or average farms and the needs of consumers for nutritious foods.

The "Colleges of 1980," the black land grant colleges, receive only 1/2 of 1 percent of the land grant budget, under the control of the white colleges. This must be ended. Those colleges should receive their equitable share of allocations and be permitted to exercise discretion in their use.

The Extension Service must be moved and directed to use far more of its skills and resources on average and low income farmers. Its movements in the opposite direction has doubtless been in response to powerful and alluring forces, including the influence of those same forces on Congressional appropriation of funds. It is incumbent on both the Service personnel and the Congress to see that this long-time trend is reversed and that both land grant colleges and the Extension Service take on the broader responsibility of the welfare of people and the strength and unity of the communities of rural America.

4. *Farm Price Supports.*—No system of subsidy or price supports for agriculture should be tied to volume of production as they have been in past years,

but should be designed to support farm family income. In 1971, the top 20 percent of recipients in the cotton program received nearly $\frac{3}{4}$ of the benefits.

5. *Ever-Normal Granary.*—The concept of the ever-normal granary should be re-established. It is not only a sensible means of removing temporary surpluses to support farm prices, but it also protects consumers at home and abroad from sudden upsurges in prices and actual hunger.

6. *Improve Farm Credit.*—Our system of farm credit, both for operating loans and loans for land acquisition for new or young farmers is inadequate. Existing programs should be reshaped, and the Federal and State governments should cooperate in establishing better credit programs, possibly patterned after the Canadian Farm Credit System.

7. *Strengthen Co-Operative Movement.*—The best alternative to the elimination of the working farmer and to the control of agriculture and its output by great corporations is the development of cooperatives, controlled by farmers or by farmers and consumers. In 1974, USDA spent barely $\frac{1}{4}$ of 1 percent of its total funds on cooperative development, most of that amount going into projects for the growth of existing cooperatives through mergers and centralizing authority while weakening membership control. A Congressional mandate to revitalize USDA's cooperative program is long overdue and not likely to be delivered without citizen pressure.

8. *Big Business Farmers.*—There must be legislation at both Federal and State levels to prohibit businesses with major investments in non-farm assets from engaging in agricultural production.

9. *Limit Food Advertising.*—Much of the food dollar is spent by agribusiness on advertising whose purpose is to peddle brand names as a weapon against the emergence of competition from new enterprises and cooperatives. Tax deductions for this kind of advertising as "business expense" must be severely limited.

10. *Trust Busting.*—The Federal Trade Commission should be funded to increase its efforts to inhibit and break up concentration in the food industry. The Congress must provide adequate funds for FTC's Bureau of Competition to undertake investigations and report to the Congress on the nature and degree of concentration in the food industry, including the impact of advertising and vertical integration on consumers.

11. *Agricultural Census.*—The proposed revision in the way in which the Agricultural Census will count farms is a threat to small farmers and consumers. No such change should be made, but if it is made it should be as the result of law and not by administrative fiat.

12. *Land Use.*—The encroachment of strip-mining, suburban sprawl, and the second-home industry are a threat to the agricultural land base and should be strenuously regulated at the federal, state and local government levels. Preferential tax assessment for farmland is a recommended land-use tool, and should include provisions to the effect that owners retroactively make up the difference in tax revenues if they sell their property to speculative, non-public service interests within a specified period, such as fifty years. Minnesota has a land-use bill, which not only taxes farmers at a lower rate, but excludes corporate farmers from preferential assessment. Another useful model is the Saskatchewan Land Bank, through which land is sold to the state which then holds it in trust and leases it to working farmers.

13. *Land Speculation and Taxes.*—Federal and state tax laws facilitate concentration of control and land speculation. They should be studied in detail as part of a program for preventing the undermining of family farming, and a good beginning should be the elimination or drastic revision of the capital gains racket.

14. *Inheritance Taxes.*—Two threats to family farms are state and national inheritance taxes. The alternative to creating a special class by increasing the farm inheritance exemption is to provide an automatic source of credit when necessary to prevent inheritance tax elimination of a family farm. This should be done immediately through the Farmers Home Administration.

FARM LABOR

The average per capita income of migrant farm workers is \$1,654 per year. In 1972, workers with jobs off the farm part of the year did a little better, averaging \$2,798. Farm workers are among the most poorly paid workers in the nation on a

yearly basis; their children still work in the fields; federal safety standards are not enforced and often not promulgated, although agriculture is the third most hazardous occupation—even measured by obsolete standards. Farm workers are discriminated against, coming and going, in laws on Social Security, minimum wages, unemployment compensation and worker's compensation.

RECOMMENDATIONS

1. *Social benefit legislation.*—Discrimination against farm workers in federal and state legislation must be eliminated. Farm workers should receive the benefits available to the rest of the hired working force of the nation, including unemployment insurance, Social Security, overtime pay and workman's compensation. Attempts to weaken the laws protecting child labor must be defeated.

2. *Consumer boycotts.*—Consumers boycotts by farm workers should be supported until they are assured of free, secret elections on their choice on unionization.

3. *Farm worker aids.*—Because of their migrant or isolated status, farm workers require special adaptation of programs, including outreach in Food Stamps and other programs like transportation of children to day care centers.

4. *Illegal Aliens.*—Illegal aliens are easily exploited and are a device for strike breaking. They are a deterrent to the unionization of farm workers. Employers of illegal aliens should be severely penalized.

5. *Child labor.*—There must be more vigorous DOL enforcement of laws prohibiting children working in the fields in areas where school is in session.

[From the San Francisco Examiner, Jan. 11, 1976]

THE \$2,000,000,000 GIVEAWAY

How a huge federal project to bring water to family farms became a gold mine for corporate landholders.

(By Lynn Ludlow and Will Hearst)

Paper farmers, absentee landowners and several big corporations reap most benefits from a federal irrigation project that was supposed to redistribute huge landholdings into family farms.

Thousands of small farmsteads were promised within the Westlands Waters District from a taxpayer investment estimated at \$2 billion in various subsidies.

Shaped like a fat green cucumber on the dusty west side of the San Joaquin Valley, the 572,072-acre irrigation district was formed in 1952 by corporate growers and landowners seeking federal help to replenish their sinking water table. Their spokesmen in Congress, Rep. B. F. Sisk, D-Fresno, predicted family farms in the thousands "sharing the productivity and the bounty of fertile lands blossoming with an ample supply of water."

With the cheap water came reclamation law. This imposed a 160-acre limit per farm owner. He is supposed to inhabit or be "an occupant" of the 160 acres.

In return for up to 10 years of water at exceptionally low cost, the great landowners signed agreements to sell off their holdings in 160-acre farms at the appraised pre-water price. This would return people to the land, challenge the long trend toward corporate control of farmlands in America and test the ever-popular notion that bigness is better.

By now, with more than 100,000 acres sold off during the first decade of reclamation, 300 to 600 owner-operated farms of 160 acres or less should have been started.

The result so far: two.

To city folks, with problems of their own, it's more than a simple issue of law and order. Westlands has become a fat example of growing corporate control of rural America and what might be termed the government-agribusiness complex.

To country people, the effects are less abstract. A two-room hovel on the edge of this drab hamlet illustrates the shattered promise of land for the landless—a promise buttressed by a decade of federally-subsidized irrigation that increased the value of farmlands here by tenfold.

If the law were strictly enforced, Westlands (and other federal reclamation districts) would have become a new frontier offering opportunity to thousands

of men and women. In this district alone, more than 3,000 small farms would be possible.

Instead, these are fields without farmhouses. The laborer from Three Rocks works on 160-acre tracts owned by a consortium of absentee investors leased to a management firm, farmed as a single unit and worked by cropdusters, D-8 Caterpillars, air-conditioned harvesting units and as few field hands as possible.

Because it involves so many dollar signs in direct subsidies to big landowners such as Southern Pacific and Standard Oil, the Westlands project has become Exhibit A in growing criticism of the federal Bureau of Reclamation.

More than 3,600 parcels of 160 acres or less are listed within the district. Most are leased to farm operators by their absentee owners. A few are home base for farmers who also lease nearby fields, and a few are owned by farm operators with supplemental income.

Scores of would-be farmers have petitioned without the slightest success for farm properties made available by the 160-acre limitation. Sales are controlled by the sellers. The Bureau of Reclamation has no formal rules to assist potential buyers.

THE DEALS

Land transfer documents filed with the Fresno County recorder show that the 1902 law is treated by federal officials as something of an annoyance.

Title to one large holding passed through a dozen hands and a friendly foreclosure, all with the assent of the Bureau of Reclamation. Then it returned to the original excess landowner, Harris Farms, Inc.

In another case, 3,390 acres was sold by Giffen Inc. to 22 buyers. The list is headed by wives of adjoining farm property owners, Frank Telles and Jess P. Telles Jr. of Firebaugh. The others include various relatives and in-laws. The acreage was sold in 17 parcels, put together as a single package and distributed to the 22 buyers in undivided interests. The share of each owner is less than 160 acres, assuming it could somehow be separated from the rest.

In yet another twist of the law, Anderson, Clayton & Co. sold 623 acres (for \$320,000) to Dura-Style Homes, Inc., which is not a family farmer. It was then resold to two married couples in San Jose, who held the acreage in undivided interests. The couples leased the property to Vista del Llano, a farm management operation. Vista del Llano is owned by Anderson, Clayton & Co.

Without federal irrigation or an underground water table, most land in the district would be worth no more than \$100 to \$200 an acre, according to county appraisers and others. Actual value today is about \$1,500 an acre.

Because the law requires a "pre-project" price, the Bureau of Reclamation is generous by allowing \$500 to \$600 an acre.

Even so, it's the bargain of the century for the absentee investors. Virtually all buyers are friends and relatives of the sellers.

The public lost a mere \$80 million in the Teapot Dome oil scandals that sent the Secretary of the Interior to prison 50 years ago as the fall guy. In the Westlands, the losses are more than money.

[The following table was submitted by Mr. McHale:]

Who Owns the Land?

U.S. acreage (including some offshore) :	<i>Million acres</i>
Energy companies :	
Standard Oil of Indiana.....	20.3
Texaco	9.9
Mobile	7.8
Gulf	7.5
Phillips Petroleum.....	5.3
Standard Oil of California.....	5.2
Continental Oil.....	4.5
Union Oil.....	4.1
Surface and mineral rights :	
Railroads :	
Burlington Northern.....	8.4
Union Pacific.....	7.9
South Pacific.....	5.1
St. Louis and San Francisco.....	1.4

Holdings:	Million acres
Timber companies:	
International Paper	7.0
Weyerhaeuser	5.6
Georgia-Pacific	4.5
St. Regis	3.9
ITT (Rayonier)	2.0
Scott	1.8
Boise-Cascade	1.8
Union Camp	1.6
Crown Zellerbach	1.6
Kimberly-Clark	1.5
Continental Can	1.4

NATIONAL GRANGE,
Washington, D.C., June 11, 1976.

HON. GEORGE MCGOVERN,
*Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Com-
mittee on Agriculture and Forestry, U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: The National Grange, during its 109-year history, has been a strong advocate of family farms as the backbone of American agriculture. Family farms are not only the basis of the economic structure in rural America, but more importantly, they are the source of rural values that have made our nation morally and spiritually strong throughout our two-hundred-year history.

It is because of our fundamental belief in the family farm structure for American agriculture that we have, over the last two decades, supported legislation that provides assistance to young men and women to become engaged in agricultural production. In past years we have supported the "Young Farmers' Investment Act" and similar legislation that would provide the young farm family an opportunity to purchase an economic farm unit, on a long-term, low-interest basis, and supply operating capital at a reduced rate during the first few years of their operations. We have not been able to pass such legislation because some organizations have been afraid that sufficient safeguards cannot be provided in the legislation to prevent land speculators from taking advantage of the more liberal loan provisions. The cost of such a young farmer loan program would be a determining factor in gaining Congressional and Administration support. However, the benefits to rural communities, agriculture and the moral fiber of our society would far outweigh the moderate cost of such a program.

The National Grange has studied the Young Farmers' Homestead Act of 1975 and while we agree in principle, we are hesitant to endorse a public agency that would buy, lease and sell farm land. The Grange can foresee some problems that could arise: (1) It raises visions of socialized farming for many people. They fear that farm ownership would shift from private hands to government, leading to inefficiency and a stifling of initiative. (2) The Board could become an agricultural czar, deciding farm size and who could or couldn't farm. (3) It could contribute to inflated land values, making it more difficult for other farmers to acquire farm land.

These and other problems may be overcome, but as long as the problems still exist, the Grange cannot support S. 2589. We will continue to support new loan programs for young farmers and changes in federal estate tax laws to ease the financial burden of transferring farm land from one generation to the next. In addition to these two criteria, the most important feature in any program to keep and attract young people into agricultural production is to have programs that provide a profit incentive. If family farmers can be assured that they can work in cooperation with government to provide the food and fiber that the nation and the world need and do so at a reasonable profit, then the future of American agriculture will be in young, capable hands.

The fundamental problem the Grange has with S. 2589 is that it presents a new concept or approach to assisting young farmers. That is the use of the power of federal government to buy, lease and sell land. For the reasons pointed out the Grange, at this time, is not ready to accept this as a proper function of government.

We would appreciate this letter being made a part of the hearing record on S. 2589. Thank you.

Sincerely,

JOHN W. SCOTT, *Master.*

STATEMENT OF PAUL VANHEIZEN, WASTA, S. DAK.

As a young farmer, married and with a family, I find it extremely difficult to hold a family dairy farm together, particularly with today's high taxes and operating costs, but I am confident that I will succeed.

As we continue to work for solutions to the problems of agriculture, and there are plenty, we must address ourselves to the lack of opportunity for young people to own a family farm of their own.

There are many young people qualified to own and operate a family farm. Many are at present working on farms and ranches with some I know actually doing the managing. But in my conversations with them, most can't get the financial support to buy a farm.

I do not want to paint so bleak a picture as to insinuate that there are no young people gaining ownership of land today. I personally am one of the lucky ones but the percentage is rather small compared to the number that want to get a farm of their own.

But because I was lucky enough to get a start along with a few others, I can not say that is good enough. I want to see my young friends that want a farm get a start. There is nothing better for a rural area than to have young people living in the community. The best way to hold them there is as landowners. I am talking about my own community, but I believe all rural communities have the same situation and would benefit from keeping their young families with them. I would like to explain at this time how I got started in farming—a start which I believe is similar to that offered under the Young Farmers Homestead Act.

I started by renting my Dad's farm (400 acres) and had additional help by taking over the contract on 320 acres of state land from my Dad. Also, being raised on a farm, I did have the opportunity to have a few head of cattle. I had five Holstein heifers of my own at the time of my start. The first four years I had the use of 28 head of dairy cattle at my Dad's and rented ten others on a monthly payment basis.

I also had the use of machinery that my Dad owned. After four years I had built and developed my herd of dairy cows and at the same time had built the equity in an operating business. I was then able to get financial backing from FmHA to purchase the 400 acres from my Dad plus his cattle and machinery. The rent I paid on the land (400 acres) and cows, can be compared with the payments demanded of a person on the Young Farmers Homestead Act program.

My point is that I am making a career for myself in agriculture because the large payments of land purchase were held off for several years. At the same time I was able to operate a farm and develop a herd of dairy cattle, which enabled me to get financial backing to purchase the farm.

Those who have been fortunate enough to have the opportunity to get financial backing were, as myself, usually involved with the land owned by relatives or started in a partnership with them.

The problem is getting the many started that don't have the opportunity but are qualified to own a farm. Taking my own case as one example, I am started in farming but I have a younger brother who is equally qualified to be a farmer. As a beginning farmer myself I can't give him the help needed on any small farm to get started. My Dad has not got enough money to help either.

Many farmers are put in this position. They have acreage enough to maybe get one child started in farming, but they have several sons interested in getting a start. Here is where the Homestead Act could be helpful.

In another case a farmer had to sell his farm six years ago when his son was 17. Today his son is 23, married and has a child and wants back into farming. He has been working on ranches since he was 18 plus was raised on a farm until he was 17. One can not say he has not got the experience needed to operate a farm or ranch. But his Dad's farm was small, and what money his Dad has is simply enough to give him a comfortable retirement.

The question must be asked in today's inflated land market—can these two young people get a start in agriculture. A young man would need about \$50,000 today to get started.

In comparing S. 2589 with H.R. 7540, there is a great demand put on the beginning farmer in H.R. 7540 payments demanded the first years. My studies show that if the figure of \$250,000 is used as a unit figure and the interest rate is 5 percent on that money, H.R. 7540 would demand over \$30,000 the first year. This compares with approximately \$12,000 on S. 2589.

The first years are the important years in a young farmers life and S. 2589 gives the beginning farmer the opportunity to get the operation in order and his herds of livestock developed before payments are imposed on him.

One minor change I might suggest would be the stipulation that the farm unit be retained for agriculture use only if a number of leesees have failed to obtain financial backing for purchase of the unit. (This would prevent the land being subdivided or bought up by speculators.)

There are many young people wanting to own farms but simply can not get the financial backing. If we do not address ourselves to this problem immediately many small rural towns and post offices may be deserted because of the families moving away. There is much criticism leveled at the plan being introduced by Senator McGovern but no better alternatives have been offered. As a young farmer I am concerned with where this country is going and what it is doing for its citizens as a whole. I feel that people living in urban areas should be concerned with the future of the family farm.

There is no better way for the consumer to have a good food quality and supply. Studies have shown that a big percentage of our food is under corporate control. This is due in large part to the fact that family farming has been on the decline. It is time this threat was reversed. I feel it can be if the Congress acts favorably on S. 2589.

STATEMENT OF PATRICK B. HEALY, SECRETARY, NATIONAL MILK
PRODUCERS FEDERATION

The National Milk Producers Federation is a national farm commodity organization representing dairy farmers and the dairy marketing cooperative associations they own and operate throughout the nation. Dairy cooperatives represented by the Federation do business in all fifty states, and the policy views presented by the Federation represent the only nationwide expression on public policy issues directly affecting dairy farmers and their cooperatives.

The issue before the Committee today is basic to the question of what form the dairy industry or any segment of agriculture will take in the future. American agriculture developed on the basis of the family farm concept. Nowhere is this more apparent than in the dairy industry. This development, however, was not wholly accidental. Throughout our history, we have seen public policy used as an implement of encouragement of such development.

Early government efforts to encourage settlement of new lands and to stimulate the development of transportation systems were aimed in this direction. The government encouragement of farmer marketing through cooperatives, the program of price assurance, education and research efforts, all pay a role in this. A major step in this direction has been the establishment of farm credit programs through the Farm Credit Administration and the Farmers Home Administration.

The success of these efforts and the wisdom of these policies is evident by just about any measurement that might be applied. American agriculture is the envy of the world. This nation's farmers, representing fewer than one in twenty of our total population, not only produce an abundance of reasonably priced food for the American people, but provide the largest single source of food for the markets of the world.

In looking to the future of the nation and of agriculture, it is essential that we concern ourselves with efforts that will maintain the strong points of the present system.

One of the most difficult problems within agriculture today is that of the young farmer seeking to establish himself on a family-type unit of sufficient size to produce the income needed. A generation ago it was still possible for a young man to accomplish this by starting out as a tenant farmer, acquiring the funds needed for a downpayment on a farm and proceeding in that manner. The changes that have taken place within agriculture in recent years have vastly increased the capital requirements of getting established. At the same time, many of these changes have made it more difficult, if not impossible, for a young operator to "start on a shoestring" and grow into an operation.

S. 2589 and other bills introduced in this Congress are efforts to face up to this ever-growing problem for young farmers and potential young farmers. These proposals offer a variety of approaches to the question of financing farm acquisition and development and for this reason merit most serious consideration.

To gain an understanding of the scope of the problem, one has only to look at USDA statistics illustrating the growth of farm size and value in the past few years.

Year	Farmland value per acre (including improvements)	Average farm size (acres)	Investment
1959	\$103	288	\$29,664
1964	138	332	45,816
1969	188	369	69,372
1974	346	385	133,210

In the five-year span, 1969 to 1974, the investment in land and buildings on the average farm doubled. This does not even take into account the corresponding increase in investment required for livestock and equipment.

The situation facing the potential young dairyman is probably more difficult than for other young farmers. The vast majority of dairy farmers raise a considerable amount of their own feed as a part of their operation. This means they are faced with the same investment in land, equipment, and such input items as seed, fuel and fertilizer as the farmer who operates a cash grain farm.

In addition, they must meet the investment requirements involved with milk production. The production of pure and wholesome milk requires meeting certain basic standards in the yards and barns which house the cattle. Provision must be made for assembly and cooling of the milk. All of this requires a substantial investment in specialized facilities and equipment.

This means that dairying is definitely not an enterprise into which a young farmer might grow gradually. In meeting the standards on dairy farmers, it is impossible to start with a few cows and gradually expand to an adequate sized herd. Even at the start of the operation, the producer must be large enough to carry the investment in these required capital items.

In an effort to maintain income levels, farmers have readily adopted the use of equipment designed to replace labor and to permit the farm family to handle more units whether they be more acres or more cows. This is particularly true in dairying which has been a labor-intensive type of agriculture.

There have been dramatic increases in dairy herd sizes in recent years and even more marked increases in the volume of milk produced per farm. These increases, however, have meant a corresponding increase in the investment required to start up in dairy farming. The average dairy farm today represents capital of over \$200,000 in land, buildings, equipment, livestock and feed.

The question facing those who will be the dairy farmers of the future is how to acquire the capital necessary to enter the business.

Unfortunately, this appears possible in most cases today only if the young farmer has some type of sponsorship—usually the transfer of the farming operation from father to son. While this concept is valid and should be fostered, it will not, by itself, prove to be sufficient to maintain the family farm oriented agriculture.

We need to develop credit programs more nearly tailored to the needs of the young farmer with limited equity. Debt service costs must be designed to enable these young operators to develop their operations into profitable, well-managed farms during these early years of high investment demand.

We are aware of the considerable effort Senator McGovern and other Members of this Committee have put into this question. We endorse these efforts and urge the development of programs that will truly meet this great need.

STATEMENT OF THE INDEPENDENT BANKERS ASSOCIATION OF AMERICA

The Independent Bankers Association of America represents 7,300 banks with assets aggregating \$151.6 billion or 16.6 percent of the assets of all insured commercial banks in the United States. Approximately 80 percent of our member banks have assets under \$25 million. More than 70 percent of our membership

is located in the 18 major agricultural states, with many members located in rural communities. We are vitally concerned about agriculture and the problems of young farmers. IBAA, therefore, appreciates the opportunity to present these views to this distinguished committee.

The young farmers' problems are ones with which the members of this Association can readily identify. They are much the same as those faced by small businessmen, including independent bankers.

It is extremely difficult to secure the capital necessary to get into independent banking, independent business or independent farming. Once in, keeping the business alive and profitable, as any small businessman can tell you, takes long hours, good management skills, plus a certain amount of plain luck and good business sense.

Unlike many of his counterparts, the small independent businessman's problems don't end with the prospects of retirement. In fact, retirement and how to dispose of his business is a dilemma that impacts harshly on the independent businessman. The problem of succession is compounded by archaic tax laws that make selling out to a corporation the easiest choice.

This is the worst of all possible choices, ideologically, for independent bankers and other independent businessmen. These people believe, and justifiably so, that large corporations based elsewhere cannot serve their communities in the same way as business firms whose roots are intertwined with those of the community in which they operate.

This is not to imply that large businesses do not have a proper role in the scheme of American commerce. Our nation needs both types of enterprises—large and small—and it is for this reason we praise the efforts of this committee in seeking the best means to keep the family farm a viable enterprise.

IBAA has been following and evaluating the progress of the Young Farmers Homestead Act, as well as other bills aimed at boosting the flow of credit to agriculture. Nearly a year ago IBAA undertook an extensive research program in an effort to supply the Joint Economic Committee with information about the agricultural credit situation and what might be done to keep adequate funds moving through the credit pipeline to the nation's farmers and ranchers.

Based on this research—which is continuing—and discussions with knowledgeable individuals in the field, IBAA is convinced that S. 2589 will not ease the young farmer's financial entry problems without causing adverse side effects, which we will cite later.

For this reason, we would like first to explore what we see as some alternatives for not only getting the young farmer started, but insuring adequate credit for agriculture. We will then offer some constructive criticisms of the proposed bill.

On March 10, 1976, Senator Henry Bellmon (R-Okla) introduced S. 3114, which includes two basic amendments to the Rural Development Act supported by the banking industry: (1) increase in individual farm loan limits; and (2) changes in procedures for handling appropriations for the Farmers Home Administration (FmHA). We believe these amendments would make it possible for banks to make more credit available to agriculture and young farmers through guaranteed loan programs. This would reduce the equipment for direct government loans.

S. 3114 would increase from \$100,000 to \$200,000 the maximum size of farm ownership loans a bank can make under the FmHA guarantee program. Also, the \$225,000 ceiling on unpaid indebtedness outstanding against the farm would be removed on guaranteed farm ownership loans. The maximum size of guaranteed farm operating loans would be increased from \$50,000 to \$100,000.

IBAA strongly recommends adoption of these new ceilings since statutory limits have not kept pace with the inflation that has sharply increased agricultural production costs. Our concern is for an increase in operating loan limits to provide adequate operating capital for an efficient family farm unit.

The interest rates on guaranteed farm ownership loans and guaranteed farm operating loans would no longer be fixed by statute under the proposed bill. They would be negotiated between farmer and lender. The interest rate subsidy would be abolished on guaranteed loans made in the future. Ending the subsidy would greatly reduce the cost of these programs to the government as they are expanded to meet future needs.

The legislation makes it possible for the Congress, at its option, to establish two program levels against which FmHA supported loans can be charged. One level would cover insured loans; the other, guaranteed loans. Under current

loan regulations, direct and guaranteed loans are charged against a single amount established in an appropriation act.

IBAA supports this change since we believe the direct and guaranteed loan programs should be funded separately.

On the House side we find that similar legislation has been drafted which will probably be introduced next month by Representative Bob Bergland (D-Minn). IBAA has followed development of this bill with great interest and supports its objective.

The success of any of these programs will be contingent upon the ability of commercial banks to lay off the guaranteed portion of intermediate and long-term loans through an established secondary marketing program.

Both the Small Business Administration and Farmers Home Administration presently guarantee loans made by commercial banks and other lenders up to 90% of funds originally advanced. These funds then become available for re-lending or for other forms of investment.

By generating funds for re-lending through the sale of the guaranteed portion of a government-backed loan, a bank will be able to increase its service to its business customers in its community. Moreover, to the extent that funds thus generated become available for re-lending, borrowers secure the benefits of favorable rates and terms available under the various lending programs.

IBAA has worked closely with the FmHA and the SBA in an effort to improve our relationships. Both agencies realize that they will need the full cooperation of rural banks in carrying out their respective programs. SBA was an innovator in the marketing of guaranteed loans. Many banks have been successful in placing loans with state pension funds, retirement funds and insurance companies, and more recently with national brokerage firms.

In an effort to gain more information about secondary markets and their availability and to insure the banking community is made fully aware of the avenues available to bankers to make more funds available to their communities, IBAA will sponsor a secondary market conference early next year. Participants in the conference will include SBA, FmHA, representatives of national brokerage firms, and bankers successful in the utilization of such programs.

Objectives of the secondary market conference are: the increase of lender awareness of what types of programs are available to fund business projects; and the development of specific suggestions for further funding of agriculture, small businesses and rural housing.

IBAA would be happy to share the results of this conference with this committee in an effort to help it make the legislative decisions necessary to adequately meet the capital needs of the nation's suburban and rural communities.

IBAA also believes that consideration of the following suggestions would enhance the availability of credit in rural and suburban communities for those seeking to get into business, as well as those already established:

I. The problem of succession, which we alluded to earlier, often requires re-capitalization and refinancing by those seeking to carry on the family tradition of farming. Inheritance and estate taxes often force survivors to sell a substantial portion of a farm to satisfy the tax collector. Sometimes the remaining acreage no longer constitutes a viable entity. The Congress is currently examining the feasibility of reducing the tax burden on farms and closely-held businesses where a family member plans to carry on the operation. IBAA supports these efforts and suggests these further considerations:

In the case of farms, perhaps a tax incentive for the pre-death transfer of all or part of the farm operation would be helpful.

For independent small businessmen, we suggest some relief from the capital gains tax. This would foster the transfer of these businesses to someone other than a larger entity based outside the community by making it equally attractive, tax-wise, to sell to another independent entity.

Such legislation would not only have the effect of keeping young blood flowing into these businesses, but would also help stave off the alarming concentration that is reducing the number of all independent enterprises.

II. The Federal Reserve Board should implement the following recommendations of the Committee on Rural Banking Problems:

A. Improve the access of member and non-member small banks to the principal money markets: (1) by acting as broker for the sale, in the open market, of agricultural loans; and (2) by establishing a mechanism for the assembling and pooling of special time deposit certificates from small banks and periodically conducting an auction of large-denomination participations in the pool of these certificates.

B. Expand the supply of loanable funds available to small banks which cannot raise funds elsewhere by working out arrangements whereby correspondent banks would receive payment for services provided to small banks, on a reasonable basis, rather than by requiring the maintenance of compensating balances.

III. The Congress should enact legislation which would extend to non-member banks the seasonal borrowing privileges presently available, through the Federal Reserve Banks' discount mechanism, only to member banks.

IV. The Congress should investigate the effectiveness of the administration of the Rural Development Act by Farmers Home Administration to determine (a) what steps should be taken to make the Act more effective in the achievement of its objectives and (b) the adequacy of the funds appropriated for the funding of the Act's various programs.

V. Congress should initiate a comprehensive examination of (a) the present structure of commercial banking and the trend toward increasing concentration resulting from the growth of bank holding companies through mergers and acquisitions of independent banks; and (b) the growing number of financially-related fields that bank holding companies have entered since the 1970 amendment to the Bank Holding Company Act, with particular reference to the effect of such expansion on the adequacy of bank capital and the impact of this growth on competition in the bank-related fields.

VI. The Congress should examine the adequacy of the antitrust laws to deal with bank holding company acquisitions of independent banks which may lessen actual or potential competition. Limitations have been imposed on the antitrust enforcement agencies by the recent decisions of the Supreme Court in *U.S. v. Marine Bancorporation, Inc., et al.*, and *U.S. v. Citizens and Southern National Bank, et al.*

VII. The Congress should act favorably upon the request of the Federal Reserve Board for authority to deal with the problem of protecting subsidiary banks from the misfortunes of holding company affiliates or improper transactions with them. This authority presently is dispersed among three federal agencies, each of which may take action against unsafe or unsound banking practices by banks, but there is no authority with respect to such practices by bank holding companies.

The intent of the Young Farmers Homestead Act of 1975 is a commendable one. Our Association encourages this committee to continue its efforts to improve opportunities for young people in agriculture. We also believe that at present the means of advancing the cause of the young farmer as outlined in this bill may not offer the best solutions to these problems because of some of the pitfalls they present. As we have endeavored to point out, there are a number of avenues currently open to those seeking a start in farming. Beefing up existing programs and better communicating their availability, coupled with other tools like secondary marketing programs, can provide adequate credit for agriculture.

Some of the major concerns we have about S. 2589 are:

I. What bearing will such a program have on future land prices? Farmland is a scarce commodity. We believe government intervention in the farm land market would be inflationary. The result would be to further drive up the price of farm land, the high cost of which already has a prohibitive effect on those seeking to get into farming.

Furthermore, it is unlikely in most agricultural areas that enough good land could be purchased under the bill's \$200,000 ceiling to produce a going farm. The beneficial effect of the program would not outweigh the adverse effect the bill would have on the cost of land to farmers seeking to expand and the market in farm land generally.

II. What about qualifying skills? The legislation does not require any proven management ability on the part of applicants, an element essential to success. Also, the lack of such a control would encourage the part-time farmer, a course that would hamper many of those who had the necessary skills and desire to farm full time, and one which could prove costly for the government.

III. How feasible is the program, since its provisions stress land ownership and make no accommodation for operating loans? As we have pointed out, the land provided under the Act would almost always be insufficient to provide a viable economic unit. In addition, the program deals a potentially destructive blow to the young farmer in the form of heavy debt on fixed assets. This type of situation inevitably results in a ruinous drain on cash flow. Further, in emphasizing land ownership, the bill makes no provision for operating cash. In fact, because of the lien requirements it imposes, it would make obtaining this money impossible.

The key to helping the young farmer and agriculture exists to a large degree in many of the programs already created by the Congress. We believe that before new programs are added, Congress should follow through on those bills already in the legislative hopper which seek to strengthen these existing programs. Such action will, in our opinion, fulfill the intent of Congress by allowing lenders to tailor their loan activities to the individual needs of present and future farm families.

IBAA, whose members come largely from the agricultural heartland of America, will do all it can to help.



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