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ABSENTEE OWNERSHIP OF FARMLAND

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HEARING

BEFORE THE

SUBCOMMITTEE ON FAMILY FARMS, RURAL
DEVELOPMENT, AND SPECIAL STUDIES

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

SEPTEMBER 22, 1980
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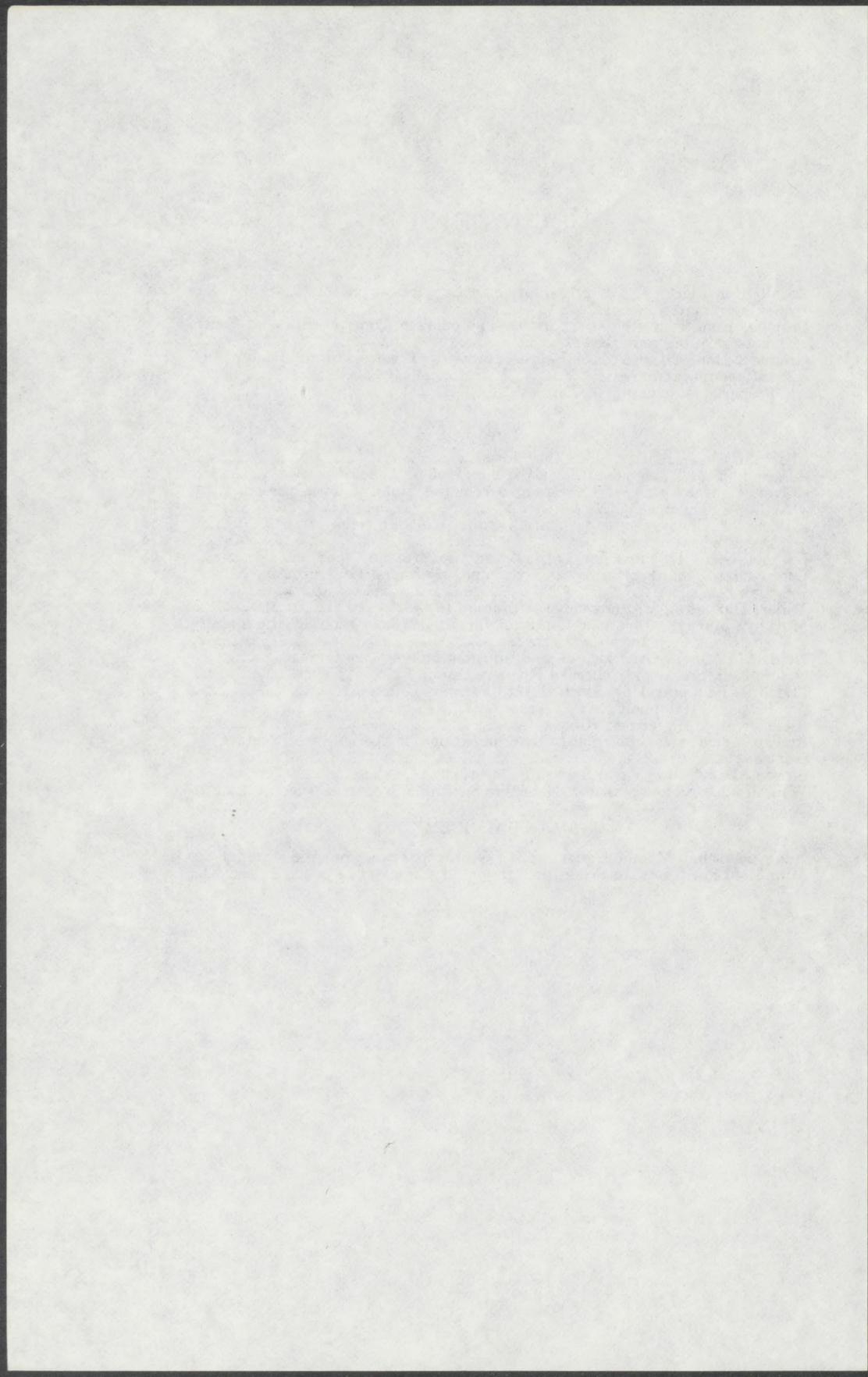
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ABSENTEE OWNERSHIP OF FARMLAND

MONDAY, SEPTEMBER 22, 1980

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FAMILY FARMS,
RURAL DEVELOPMENT, AND SPECIAL STUDIES
OF THE COMMITTEE ON AGRICULTURE,
Sioux City, Iowa.

The subcommittee met, pursuant to notice, at 10 a.m., at the Feeder Pig Auction Barn, Sioux City, Iowa, Hon. Berkley Bedell, (acting chairman), presiding.

Present: Representatives Daschle and Grassley.

Staff present: Stephen T. Adams.

Mr. BEDELL. The Subcommittee on Family Farms, Rural Development, and Special Studies of the Agriculture Committee will come to order.

We have a number of people here today. Some were not on the schedule, but would like an opportunity to testify. We will do our best to accommodate everyone.

Our first witness is Tom Miller, the attorney general of the State of Iowa.

Before your statement, I guess we should get some statements in for the record from the members of this subcommittee.

I have a short opening statement I would like to go over, if I might.

OPENING REMARKS OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. BEDELL. The purpose of these hearings is to solicit testimony on the question of absentee ownership of farmland. Under this general topic the Subcommittee on Family Farms and Rural Development is specifically looking at the impact of foreign and corporate ownership on the ability of the family farm operation to remain the central feature of our agricultural economy.

The preservation of the family farm has been recognized time and time again by the Congress as one of the essential elements of our Nation's agricultural policy.

If we are to continue to follow this policy successfully, family farmers must have the opportunity to purchase the land needed to begin their operations. Federal policies which may be unduly encouraging outside investors to compete with farmers for agricultural land should, in my opinion, be reviewed.

A number of questions have arisen recently with respect to the extent of foreign ownership of agricultural land, or the purchase of farmland by investment groups that have organized to purchase land solely for speculative reasons.

Recent real estate advertisements in the Wall Street Journal have featured such headlines as "Iowa Farm of the Week" and "Avoid Inflation—Invest in Iowa Farm Land," with an obvious appeal to the urban investor.

The witnesses testifying today have been asked to comment on several recent studies—some of which are conflicting or incomplete—that address the issue of farmland ownership and the trend toward fewer farms and farmers and an increase in average farm size. They have been asked for their assessment of the current situation and the need, if warranted, for a change in Federal policies.

Currently the General Accounting Office, at the request of the Congress, is conducting an investigation into the nature of farmland ownership in order to determine if a problem exists and what steps, if any, the Congress should take to address the problem.

It is my hope that the information gathered by the subcommittee today can be used to supplement the material being obtained by the GAO in the course of its investigation.

Additionally, since the Congress is scheduled to write a new farm bill next year, I am hopeful that any specific recommendations for change that the subcommittee receives today will be considered by the Agriculture Committee when it begins debate on a new farm program.

Mr. Daschle, do you have a statement you would like to make?

**OPENING REMARKS OF HON. TOM DASCHLE, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF SOUTH DAKOTA**

Mr. DASCHLE. Thanks, Mr. Chairman.

I also am pleased to be here with you and Mr. Grassley this morning.

Our subcommittee is concerned with the growing trend toward concentration of farmland ownership in corporate and foreign hands, a trend that bodes nothing but ill for family farmers.

With the 1981 farm bill scheduled to come before our committee next year, this is an appropriate time to take a serious look at this problem and the ways we might legislate to correct it.

The diminishing amount of available prime farmland, plus corporate and foreign ownership of land, may result in placing the family farmer on the endangered species list.

The National Agricultural Land Study indicates that from 1967-77 the United States lost 3 million acres of agricultural land to nonfarm use. One million of these acres were prime farmland. In that same 10-year period, South Dakota lost a half million acres of land, of which about 200,000 acres were prime farmland.

There are currently 5.6 million acres of foreign-owned agricultural land in the United States. This is only 0.4 percent of the available farmland, but it represents a doubling in the amount of land owned by foreign interests in the 6-month period from August 1979 to February 1980.

During that same time, foreign ownership of land in my State of South Dakota increased by one-third, from 15,242 acres to 20,918 acres.

Our tax system and Federal programs actually support this trend. The GAO estimates that at least 13 percent of the operators of foreign-owned land receive benefits from USDA programs. In addition, our current tax law allows foreign investors to escape capital gains taxes—foreign investors can pay from 5 percent to 25 percent more for farmland than American farmers and still come out ahead.

I am, however, very hopeful that we will soon have a new provision in the law which requires foreign investors to pay the same capital gains taxes already paid by U.S. citizens. This provision has been incorporated into the budget reconciliation bill which is now in a House-Senate conference.

Absentee ownership of farmland is not limited to distant foreign investors. Powerful investor organizations and diversified corporate conglomerates are also absentee owners.

In the first instance, these nonfarm corporate interests seek to gain the control and ownership of agriculture's most basic resource, farmland. They seek, not to produce food and fiber, but to profit from appreciation in the value of farmland. The ill-fated Agland Trust, unsuccessfully proposed by the Continental Illinois National Bank and Trust was a prototype of this type of absentee owner.

The other type of nonfarm corporate absentee owner is the corporate conglomerate which seeks to gain ownership and control of farmland in order to dominate food and fiber production and marketing in this Nation. In both cases, the family farmer is pitted against massive nonfarm corporate resources and the economic muscle it provides for ownership of U.S. farmland.

It is estimated that 30 million acres of U.S. farmland changes ownership each year. Of the total, one-third, 10 million acres, is bought by nonfarmers. If this trend continues, fewer current and future generations of family farmers will have the opportunity to be independent food and fiber producers. If this trend continues, a new social class will arise in this Nation—the landed aristocracy.

Thomas Jefferson's view that the best basis for a republic is a Nation of independent farmers has served us well for 200 years. Our country has changed drastically since Jefferson's time, and many Americans no longer understand or appreciate Jefferson's vision of a Nation of independent farmers. However, we in this room today do share that vision. We do understand the desirability and necessity of preserving an extensive family farm system. I look forward to hearing your testimony and working with you in the effort to save the family farm.

Mr. BEDELL. Thank you, Mr. Daschle.
Mr. Grassley?

OPENING REMARKS OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. GRASSLEY. Mr. Chairman, I want to just submit my statement, because it is a long one. But I will summarize two paragraphs from it.

First of all, we need to be reminded of the economic climate we are in. That in 1967 dollars farming this year will be \$9.7 billion.

We have got to go back to 1934, when it was \$9.2 billion for agriculture to be in the depression that it is now in.

That bothers me, particularly when I see somebody like Dr. Hjort getting \$20,000 a year bonus and his reason for getting that bonus, as stated by the President, was that he successfully made the shift in USDA policy from producer-oriented to consumer-oriented in policy and budgetary matters.

Now, as far as we on this subcommittee are concerned, and as already has been stated by the two previous Members, we feel the Department of Agriculture ought to be speaking for the farmers of America and not be changing the philosophy in the Department from producer orientation to consumer orientation and people more concerned about budgetary matters than the health of American agriculture.

So that is the climate where we are today.

In regard to this hearing, we are concerned because new pension fund investment plans have stirred considerable concern this year. A few weeks ago, the entire membership of this subcommittee asked GAO to evaluate the impact of proposed plans for pension fund investments in U.S. farmland. That investigation is continuing, and its results will help us determine what the appropriate legislative response to it should be.

Earlier this month, Senator Moynihan, of New York, introduced a bill that would actually exempt from U.S. taxation the investment income earned by certain foreign pension plans in the United States. Under present law, a U.S. pension plan does not pay tax on its investment income provided it meets Federal standards.

I am concerned about the implications this might have for foreign investment in U.S. agricultural land. I want to say to the people in this area, to the people of Congress and to the people of this subcommittee, my two colleagues here, this measure needs careful scrutiny by all of us who have concerns about outside nonagricultural investment in agriculture because our goal is to keep farmers in control of American agriculture, and not turn it over to somebody else.

Thank you.

[The prepared statement of Mr. Grassley may be found at the conclusion of the hearing.]

Mr. BEDELL. Thank you, Mr. Grassley. Now we will hear from Thomas Miller, attorney general of Iowa.

Tom, we appreciate your coming up for this hearing. You may proceed with your testimony.

**STATEMENT OF THOMAS J. MILLER, ATTORNEY GENERAL,
STATE OF IOWA, ACCOMPANIED BY EARL WILLITS, HEAD,
FARM DIVISION, ATTORNEY GENERAL'S OFFICE**

Mr. MILLER. Thank you, Mr. Chairman.

At the outset, I would like to thank you and the members of the subcommittee for inviting me to testify today. I would also like to introduce Earl Willits, the head of our farm division in the attorney general's office. Iowa is the only State in the Nation that has a farm division in its attorney general's office, I might add.

I think it is appropriate to be holding this hearing here in Iowa, where the family farm has always been the basic farming entity.

Your background papers call attention to numerous problems faced by the family farm. I will not attempt to address all of these, but will, rather, focus on ones which my office has been involved in, particularly from the State's viewpoint. These include laws limiting large-scale corporate farming, limits on foreign purchases of Iowa farmland, and Iowa's new beginning farmer loan program.

At the outset, I want to emphatically reject the view of those, including some academics, that the demise of the family farm is inevitable. For example, the president of the American Agricultural Investment Management Co. has called the term "family farm" a "meaningless phrase." While it may be an overworked term, it is certainly not meaningless.

"Family farm" truly represents a way of life for much of Iowa. The family farm is more than an economic unit, it is also the social entity upon which rural Iowa is based.

The most effective tool we have to preserve the family farm is the Iowa law—chapter 172C, the code 1979—which limits corporate and trust ownership of Iowa farmland. Prior to my election as attorney general, it was my pleasure to represent the Iowa Farmers Union and the Iowa Family Farm Coalition in its successful efforts to pass these restrictions. This law provides that no corporation or trust may buy agricultural land in this State, subject to certain exceptions. These exceptions include family farm corporations and trusts and "authorized" corporations or trusts. To qualify as a family farm corporation, a majority of the stock must be held by immediate relatives, all shareholders must be natural persons, and 60 percent of the corporation's revenues must come from farming.

Clearly, this encompasses the typical family farm corporation which is being used increasingly for business, tax, and estate planning reasons. An "authorized" farm corporation must be founded for farming and have 25 or fewer shareholders, all of whom must be natural persons.

This law has been effective in preventing large corporations from taking over Iowa farmland, as has happened in some States, particularly California.

In 1977, the Continental Illinois National Bank of Chicago, together with the Merrill Lynch brokerage firm, proposed the Ag-land Trust to invest in farmland. In response to this, Iowa amended its corporate law to impose similar limitations on trusts. This has given us the tools to keep schemes such as the Ag-land Trust out of Iowa.

For example, last spring, the American Agricultural Investment Management Co. proposed to have pension funds purchase farmland as an investment. Iowa law flat out prohibits this. Trusts, other than family and testamentary trusts, may purchase Iowa farmland only if there are fewer than 25 beneficiaries who are natural persons and if the income of the trust is not exempt from taxation.

The AAIM proposal did not meet these criteria. I wrote to them to point out the Iowa law to them. In a later telephone call with my farm division staff, AAIM said they would not try to have pension funds purchase farmland in Iowa. The point of this is that State laws can be effective to prevent the kind of large-scale corpo-

rate and trust investment represented by AAIM. This type of investment is inimical to the family farm, and I intend to vigorously enforce the Iowa law concerning it.

A second concern relating to the family farm is foreign ownership of agricultural land. You have recognized this with the passage of the Agricultural Foreign Investment Disclosure Act of 1979. This is simply a reporting act, and the 1979 reports show that nationally only about 0.4 percent of U.S. agricultural land is foreign-owned. In Iowa, the figure is only about 0.1 percent. Thus, while foreign land ownership is not a significant trend in Iowa, there have been certain localities where several purchases created concern.

The Iowa legislature responded by going beyond the Federal statute. A bill completely prohibiting the purchase of Iowa farmland by nonresident aliens passed both houses of the Iowa legislature unanimously. The only exception is for up to 320 acres of farmland purchased and converted to another use within 5 years. The penalties for violations are severe: Land acquired in violation of the act may be claimed by the State and sold at foreclosure auction. The nonresident alien may receive no more back than was paid for the land in the first place.

My farm division wrote an extensive opinion on the constitutionality of this law. After thorough research, it is our belief that the law prohibiting nonresident alien purchases of Iowa farmland is constitutional. It is a valid exercise of police power of the State.

So far as we know, the law has been successful in preventing further foreign purchases. We constantly monitor USDA and State reports. To aid enforcement, the Iowa legislature has also passed a mandatory recording act which requires all purchases of farmland to be recorded within 180 days of purchase.

We have had numerous calls from lawyers and realtors concerning possible foreign purchasers. We, of course, advise them nonresident aliens cannot purchase Iowa farmland. It is direct, simple, and effective and helps preserve the Iowa farm by removing a wealthy investor from bidding competition for farmland in Iowa.

I now want to turn to a third area: Capital for farming. One justification often heard for corporate, institutional, and foreign investment is that they are sources of badly needed capital. The capital demands of the modern family farm are indeed huge. But there are better ways for these needs to be met than by separating the ownership and control of land from the family labor.

Credit problems have been particularly severe this year with high interest rates and the near-term prospects are not much better.

One of Iowa's most severe problems is the difficulty of entry into agriculture by young farmers, largely due to the huge capital requirements. The average Iowa farmer is now over 50 years old. We need a continual infusion of new farmers to maintain the vitality of the Iowa family farm.

For this reason, last December, I proposed using tax-free revenue bonds to finance beginning farmer loans. Several States have previously initiated young farmer loan programs using State general fund revenues for interest subsidies. The problem with these is that they do not generate large enough sums of capital. The bond pro-

gram we proposed can generate virtually unlimited amounts of capital; in the law, as written, \$150 million worth.

The bill received broad bipartisan support in the last session of the Iowa legislature and passed virtually as we had proposed it in December. The whole idea is to generate substantial additional lower cost capital for beginning farmers through the sale of tax-free revenue bonds. To qualify, a beginning farmer must: One, have a net worth of less than \$100,000; two, have experience, education, or training in farming; three, have access to adequate working capital; and four, be unable to obtain credit elsewhere.

Up to \$500,000 in land may be financed under this program and up to \$125,000 in depreciable property.

The response to this program has been amazing. Over 2,000 young farmers have inquired about this program. I know of no better evidence of the continued interest of young Iowa farmers in the family farm.

Farm bonds collateralized by a loan portfolio have already been marketed in similar programs in Louisiana and Oklahoma, so we are very hopeful about the prospects for the Iowa program.

But, for it to be successful, congressional support is necessary. First, the Internal Revenue Code, section 103, exemption for small-issue industrial development bonds, which these bonds are, must be protected. As with any expansion of tax-free bonds, there have been critics. Yet it only seems fair that the agricultural sector, particularly beginning farmers, be able to take advantage of the same reduced interest rates that housing, commerce, and industry have been using for years.

I would urge the Congress, and you, as farm State Congressmen, in particular, to support this exemption for beginning farmer loan programs such as Iowa's.

Second, the Farmers Home Administration plays a key role in these programs. FmHA 90-percent guarantees on these loans result in the lowest possible rates on the bonds. There appear to be adequate funds available for guarantees on farm equipment, machinery, and breeding livestock loans. There is a severe shortage of funds for guaranteeing farm purchase loans.

The normal response to this problem might be to ask for more FmHA money to guarantee loans, but I, like you, am aware of these cost and budget-conscious times. You could make much more effective use of FmHA moneys by making more effective use of FmHA guarantee moneys.

Currently, \$1 of FmHA guarantee money guarantees only \$1 in loans. Changes in FmHA procedures to follow standard insurance underwriting practices should allow \$1 in FmHA to insure \$5 or \$6 of farmer land loans. This would be a far more effective use of Federal money than the current practice. It would give a lot more leverage to the program and greatly extend the extent and usefulness of FmHA money.

I offer this as one step, albeit an important one, in State-Federal cooperation. Beginning farmer loan programs such as Iowa's are proliferating among the States. Oklahoma, Louisiana, Alabama, New Mexico, North Dakota, Minnesota, Wyoming, Hawaii, and other States have or are considering beginning farmer loan programs.

The States, using the Federal income tax laws, are able to take the initiative in a program which goes directly to the heart of preserving the family farm: Meeting the capital needs of those young people trying to get started as family farmers.

I urge the Congress to nurture these programs and provide the necessary Federal support through the tax laws and FmHA programs.

Mr. BEDELL. Thank you very much, Tom.

Before we start our questioning, I should mention there apparently are some people here who would like an opportunity to testify. We have some witness cards available. If anybody wants to fill one out we certainly will hear any witness just as soon as we hear the witnesses already scheduled.

Mr. Daschle, do you have any questions?

Mr. DASCHLE. Tom, I was interested in your excellent suggestions for younger farmers, and the way in which we might get them more involved and certainly give them more of an opportunity. You mentioned that other States have already used the tax-free revenue bond concept. I would be interested in knowing whether or not there has been a significant increase in participation in young farmownership where those States have already begun tax-free revenue bond programs.

Mr. MILLER. I think it is too early to tell. Those States are just half a step ahead of Iowa. Iowa, Georgia, Louisiana, and Oklahoma are sort of the forerunners. They are at the stage, I think, where through their bonding counsel, they are in the process of selling the bonds—just a little bit ahead of us. To use the revenue bond approach is a very new idea in regard to the beginning farmer loan programs. And just this year it is starting to take hold.

We have worked closely with the new family farm development authority appointed by the Governor to implement this program. We worked very closely with bonding counsel from the day we started drafting this legislation in Iowa. Everything seems to be moving along quite well here in regard to bonding counsel saying there is no need for a test case, in regard to the apparent tax-free nature of the bonds. But I think both in this State and Louisiana and Oklahoma we are yet to really see the total fruition of the program.

As I indicated, 2,000 young farmers have indicated interest in Iowa. When we announced our idea for legislation last December, there was a tremendous response in terms of letters and phone calls. In fact, this is the one issue that I have received more mail and more inquiries on than any other issue since I have been attorney general, even more so than the list that drew a lot of attention from this area from Des Moines. It has been the number one response from the citizens of this State to our office.

Mr. DASCHLE. And you would characterize most of your mail as quite favorable to the concept?

Mr. MILLER. Yes, very clearly. In fact, I am not aware of anything that was unfavorable. A very, very strong and genuine interest in this idea and this approach.

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. BEDELL. Thank you. Mr. Grassley?

Mr. GRASSLEY. Does that Iowa law have an age definition of what a young farmer is?

Mr. MILLER. No; it doesn't, Congressman. We struggled with that question in terms of constitutional problems, and decided that particularly when bonding counsel would be looking over this thing and making sure that everything was perfect, that we shouldn't risk any constitutional problem by putting an age limit in.

But we looked toward that problem by the requirement that the net worth of the person be less than \$100,000, so that those that are already started in farming wouldn't be able to take advantage of it to the detriment of those who would like to start.

Mr. GRASSLEY. Thank you, Mr. Chairman.

Mr. BEDELL. First of all, what is a natural person? I thought most of us were natural people.

Mr. MILLER. Yes; we all are. Those are legal terms. The idea is that when you say person in the law, you include everything. You include people; you include corporations, partnership, any entity. And when you say natural person, you mean a human being. So the idea is that when we use that term, like the 25 shareholders have to be natural persons, a corporation couldn't be one of the shareholders. It would have to be a natural person.

Mr. BEDELL. A natural person is a human being, and a unnatural person is not a human being?

Mr. MILLER. It is a corporation.

Mr. BEDELL. I was quite interested here when you say that FmHA could use a different procedure to get a lot more leverage on their loan guarantees. Would you explain that?

Mr. MILLER. Yes. The idea is that they take their appropriation, whatever it may be, and guarantee an equal number of dollars in loans. The idea is to analogize that to the private sector in the sense that we know if they guarantee \$10 million worth of farm loans, there is really no chance that all \$10 million will go bad, and they would have to use the money to pay off the bad loans. The insurance company is in a similar situation, would guarantee or use the money in a ratio of 1 to 5 in regard to the number of dollars they would guarantee.

I think it is particularly appropriate in this kind of setting to do. Because they would be guaranteeing farm loans, where the farmland would be very good security for the loan, and the likelihood of all the money being used up on bad loans is very unlikely, even at a 1 to 5 ratio.

Mr. BEDELL. If I understand the loan guarantee program, it is simply that the Federal Government tells the bank or the other lending institution, if you will loan Tom Miller \$100,000, the Federal Government will guarantee 90 percent of it, so that if Tom Miller cannot pay the loan, whatever the loss is, you will take 10 percent, the Federal Government will take 90 percent.

Mr. MILLER. Yes.

Mr. BEDELL. I don't understand how we could change that program in such a manner that the Federal guarantee would give us a lot more lending authority—given the number of dollars. You are not proposing that they only guarantee 70 percent; are you?

Mr. MILLER. No; what I am saying is that it is my understanding—and you can certainly correct me if I am wrong—on the

\$100,000 loan, the Farmers Home would be appropriated \$90,000 for a guarantee. Say they do a number of those guarantees. It would be very unlikely that all of those loans would go bad. In fact, 1 out of 6 would be probably high. And even if the loans go bad, there is the security of the land in the kinds of loans we are talking about.

So that they should use more leverage in a sense to guarantee more than they are actually appropriated.

Mr. BEDELL. Just so we understand, the loan guarantees are off-budget. Loans are on-budget. But loan guarantees are off-budget.

Mr. MILLER. I see.

Mr. BEDELL. So what you are saying is, we simply ought to make larger amounts of loan guarantees because of the realization that the likelihood of losing that money is very minimal.

Mr. MILLER. Yes; that is right. Particularly when it comes to the loans for farmland, because the land stands as a very good security for that kind of loan.

Mr. BEDELL. The way the Federal budget works is that direct loans made by the Government are on-budget and are taken as a part of that year's expense. If we loan \$100,000 directly, that is just the same as if we grant \$100,000 for that year. But the loan guarantees are not on-budget.

Mr. MILLER. I see. They are not included as an appropriation item. I was mistaken on that.

Mr. BEDELL. It is not, at least, a part of the budget.

Any other questions?

If not, we want to thank you very much for coming down here.

Mr. MILLER. Thank you very much, Mr. Chairman, and members of the subcommittee.

Mr. GRASSLEY. I want to compliment you on your appointment of Earl Willits. I served with him in the Iowa Legislature. He was an effective legislator. He didn't always agree with me, but he is a good person, and has the right background for the assignment you have given him.

Mr. MILLER. Thank you, Congressman. He is from the third district.

Mr. BEDELL. Our next witness is Arthur Thompson, who is here representing Senator Culver's office.

I should tell all of the witnesses, if you have prepared statements, the entire statement will be entered into the record, and you can either read it or summarize it, as you wish.

STATEMENT OF HON. JOHN C. CULVER, A U.S. SENATOR FROM THE STATE OF IOWA, PRESENTED BY ARTHUR T. THOMPSON, ACCOMPANIED BY RON STOPAK, WESTERN IOWA FIELD REPRESENTATIVE, OFFICE OF SENATOR JOHN C. CULVER

Mr. THOMPSON. Congressman Bedell, and other members of the subcommittee, I am not a member of Senator Culver's staff. I am a farmer from Greene County. I am part-time now. I am a retiree from the Department of Agriculture, three different periods. I have had an abiding interest in family farms for a long time. At my left is Ron Stopak, who is with the Senator's office here in Sioux City.

I would like to read this statement on behalf of Senator Culver.

There is an air of genuine urgency about the subject before us today, and you are to be commended for providing this opportunity for public comment, especially from our Iowa farmers.

The hour is late—some say too late—for arresting the trend toward fewer and fewer farms of ever-increasing size. Even more disturbing is the apparent trend toward absentee ownership by outside corporations, trusts, and foreign interests. Few, if any, young people today can afford to bid for land against the practically unlimited resources of such giants.

I do not believe it is too late to reverse this trend. The family farm has established itself as the foundation of American agriculture's unmatched productivity by being the most efficient unit of production ever to emerge. It can and will retain that position of supremacy if we in Government insure that policies and programs do not themselves place the family farm at a disadvantage.

The tax advantages enjoyed by large corporations, trusts, and foreign interests are a classic example of policies adverse to the family farm.

I believe the Congress is concerned about preserving the family farm in America. These hearings are one evidence of that. Three years ago, Congressman Bedell, you and I and many others fought to stop the Continental Illinois Bank from spending \$50 million of trust money on Midwest farmland. The Congress came within eight votes of passing my 1977 amendment, which you also supported, to prohibit non-farm corporations and trusts from receiving payments under the farm bill. I hope that we will be successful in passing this provision next year when we consider the 1981 farm bill.

In the past decade foreign interests have emerged as a growing threat to young Americans' ability to purchase farmland at prices they can afford. The Congress took the first step toward guarding against this threat when it passed my 1974 Foreign Investment Study Act. That act established the foundation of information upon which we have built in recent years with more thorough monitoring and registration of foreign purchases.

Legislation I introduced with Senator Malcolm Wallop in 1978 and again in this Congress to require foreign owners selling land to pay capital gains tax on their profits is now making progress. Congressman Grassley is to be commended for introducing this same bill in the House. If it is not enacted this year, it should be a priority item on the legislative agenda next year.

Our long fight to repeal the carryover basis provision and to increase inheritance tax exemptions was finally successful in the 96th Congress. Regular reassessment of the inheritance tax exemption is needed to prevent inflation from again rendering the exemption ineffective in relieving the inheritance tax burden on the next generation of family farmers.

As we continue to work to remove these and other disincentives to the survival of the family farm, there are also positive measures that need to be implemented. One possibility is to provide preferential interest and repayment terms to beginning farmers on family-sized units. Both Iowa and Minnesota have already begun programs of this nature.

Next year's farm bill should examine these programs carefully with an eye toward providing incentives to both the beginning

farmer and the retiring farmer faced with a choice of purchasers. The North Dakota example where certain tax breaks are offered to landowners who sell to young, beginning farmers should be given close attention by the Agriculture Committee.

In conclusion, perhaps the most important protection needed by family farmers is a fair price. The greatest threat to the family farm is, and always has been, low farm income. While large corporations can weather low price years by subsidizing their farm operations and take their profits from capital gains in land speculation, the family farmer must earn his way off the land from year to year.

Low prices throughout the 1950's and 1960's led to the greatest exodus from the farm in American history. The high price years of the mid-1970's brought about the first reversal in several decades in the increasing average age of farmers. The prospect of earning a fair wage brought young men and women back to the farm by the thousands.

This is the key to the survival of the family farm—that individual farmers be able to earn a fair living without the threat of economic disaster at every turn in the weather or every fluctuation in the international political climate.

Thank you again for the opportunity to present my views on this crucial issue. I am confident that this subcommittee will listen carefully to what our farmers have to say today and will take the message back to Washington with a strong voice.

Thank you for the opportunity to appear.

Mr. BEDELL. Thank you, Mr. Thompson.

Mr. Daschle?

Mr. DASCHLE. I would only thank you as well, Mr. Thompson, for a very fine statement. It is a pleasure to have you here this morning. I am delighted to have you come.

Mr. BEDELL. Mr. Grassley?

Mr. GRASSLEY. I endorse those same remarks of Mr. Daschle, and appreciate your participation.

Mr. THOMPSON. Thank you.

Mr. BEDELL. I have a question. You indicated there had been a reversal and more younger farmers are coming onto the farm. It doesn't jibe with the information I have here.

Mr. THOMPSON. Well, I don't know the figures, but I suspect he is talking more in national terms. I have seen some of this. Some of them come out onto a part of the farm.

Mr. BEDELL. The reason I ask is I have a study here that says that the number of new farmers under 35 years of age has decreased since 1964.

Mr. THOMPSON. I am not sure. Some of the figures of the census have changed.

Mr. DASCHLE. I would just be interested if you could briefly describe what it was like when you started. What kind of investment did you put out in agriculture when you started? And how many years ago was that? And briefly, how that might compare to a young farmer starting today.

Mr. THOMPSON. Well, I am one of those that you say has to start either marrying it or inheriting it. In a sense I inherited it, but also inherited a mortgage. My mother was a widow. I came back

out of the Foreign Service and started up. I bought the machinery. I don't remember what I paid for it. It wasn't the best in the world. We are still using some of it.

I could tell you about farming across the fence from some big ones, some of it by outside money. I have got some weeds I never had before because they come across the fence. I think probably for each dollar invested I can beat them. But, of course, they beat me on volume.

So it is a question of in the long run is it more efficient? I have conservation contours, and grass waterways, and grass headlands.

Mr. DASCHLE. Thank you.

Mr. BEDELL. Thank you very much, Mr. Thompson. We appreciate your testimony.

Our next witness is George Naylor, a farmer from Churdan, Iowa. Mr. Naylor is not here.

Then we have Daryl Siebens, of the Iowa Farm Bureau, from Akron, Iowa.

We appreciate your being here, Daryl. We look forward to your testimony. You may either read the whole testimony or, if you wish, summarize it; it will all be entered in the record, either way.

Mr. SIEBENS. It is not all that long, Congressman, so I think I will go through it.

STATEMENT OF DARYL SIEBENS, IOWA FARM BUREAU FEDERATION

Mr. SIEBENS. My name is Daryl Siebens. I farm in Plymouth County, Iowa. I appreciate this opportunity to speak for the Iowa Farm Bureau Federation to this subcommittee on prospects for maintaining the family farm ownership system.

Certainly the ideal, as well as the traditionally dominant force in American agriculture, is the family farm—with ownership, management, the labor provided primarily by the family unit. From early support for the farm credit system in the 1920's to the present day advocacy of the revamping of Federal estate tax laws, the Farm Bureau has consistently supported Government action that would strengthen the ability of family farms to provide a sound economic return to the family that owns and operates it. I believe the family farm will survive despite the challenges and problems that are present today.

The entry of huge amounts of outside capital into agriculture, the extensive development on various forms of vertical integration, and the activities of huge business conglomerates in the production and marketing of agricultural commodities do raise serious concerns about who will control agriculture in the future.

We are opposed to tax advantages which encourage this entry. We will continue to promote programs that strengthen the ability of farmers to bargain with handlers and processors. We will also oppose the use of agricultural land as a long-term tax-sheltered investment by pension and profit-sharing funds.

Although foreign investment in farmland is not a significant problem in Iowa at the present time, we will continue to oppose preferential tax treatment of foreign investments in agriculture whether protected by Federal tax law or treaty provisions. We will insist that all foreign investors be required to conform to all U.S.

tax laws and to the import and export regulations that apply to American producers.

It must be recognized that while statistics in some areas indicate a substantial amount of nonfarm ownership of farmland, this off-farm investment may serve a good purpose. Most farmers own some land and rent some more. To have a government policy that prohibits nonfarm ownership—either by law or by tax policy—might deny needed land to many present-day farmers with limited finances and might hasten movement of land into larger units. Many retired farmers depend on their farm investment as a source of income and their only real protection against inflation.

But the major threat to the continuation of the strong family farm dominated agriculture is the Government, itself. It is ironic that the same Government that seems so vitally concerned about the structure of agriculture is, in large part, responsible for several policies that are a major threat to this family farm.

The first of these policies is inflation. The Government has not only refused to control inflation, it has been the major contributor to inflation. Farmers buy 70 to 80 percent of their supplies and services from off-farm sources, and these costs are climbing at an alarming rate. Fuel and energy costs are up 43 percent over last year. Fertilizer prices are 30 percent more.

Interest payable per acre of farm real estate credit was 25 percent higher this June than the year before. Inflation will not go away until Congress stops the spending spree and eliminates the Federal deficit. That deficit this year is expected to reach \$60 billion and each person's share of the nearly \$1 trillion Federal debt now tops \$4,000.

The cost-price squeeze created by inflation is tough on all farmers but extremely hard on beginning farmers and those with limited financial resources. The near-term effect of inflation is to reduce farm numbers as farms are consolidated into farms with stronger financial resources. In the long term, inflation creates barriers for new entries into agriculture and leads to a farm structure that is more closely coordinated and centralized.

Almost as devastating as inflation is the Government policy on death taxes. Federal estate taxes are making it difficult for farm families to pass the family farm intact to the next generation. This has been a traditional pattern for entry into agriculture in the past.

We advocate a long-term policy of gradual abolishment of the Federal estate tax. Until that can be accomplished, we advocate increased unified credit to provide exemptions that will keep pace with inflation.

There should be an unlimited marital deduction so that estates are not taxed when they pass from one spouse to the other, and there should be an increase in the \$3,000 per year per donee exemption from gift taxes. This increase, for example, will allow stock in a family farm corporation to be transferred gradually to the next generation.

And, finally, the Government policy of permitting an ever-increasing number of agencies to promulgate an increasing number of rules and regulations that affect agriculture does not enhance the future of family farm ownership and operation. Family farms

find it more difficult and costly to deal with environmental, safety, and other regulations than do large corporate or collectively managed farms. Agriculture shares in the estimated \$100 billion annual cost of these regulations that lower productivity and often serve little purpose.

The family farm will survive, but as in the past it will probably continue to change. It would be a fatal mistake to attempt to mold the family farm into the status of the past. Government policy instead should be directed toward eliminating those policies and practices that make it most difficult for family farmers to exist.

Mr. BEDELL. Thank you, Daryl.

Mr. Daschle?

Mr. DASCHLE. I want to thank you, Daryl, as well. I have no questions. I appreciate your coming this morning.

Mr. BEDELL. Mr. Grassley?

Mr. GRASSLEY. Well, let me say I would like to thank you for obviously broadening the issue. It is wider than what we sometimes think of in terms of just the farm bill, because even though the farm bill is coming up next year for reorganization, the problems of agriculture go way beyond what Congress will deal with in that farm bill.

I think you have pointed out in the area of Government regulation, in the area of State tax reform, particularly, the areas that need to be dealt with that we will not have an opportunity to do in that agriculture bill. And I hope that we get the job done.

Mr. SIEBENS. Well, the one thing that distresses me—and I am not anti those programs that have been established, but let me submit to you that inflation being what it is, the cost of farmland has risen. And there is no particular good reason to invest in farmland on an operational basis.

There is no economics in investing in farmland because of operations. But the investment and the outside investment, the foreign investments, the pension funds, the trust funds that are going into land purchases are done strictly on the basis of inflation.

We could solve an awful lot of these problems. There is no reason for a trust fund to invest in farmland if they don't anticipate further inflation.

We come back to the point of estate taxes. We are levying with State tax laws levied back when we didn't have inflation. So they are out of line, then.

So it would seem that if you gentlemen would go back and take a crack at inflation, you will solve a multitude of other problems, and not have the kinds of things that are happening today in the agricultural sector.

I tried to discover how people try to relate, and how you take a look at inflation, and how people react to inflation, what you do to get away from inflation, and how you try to handle it in your segment of your business. So I guess I have arbitrarily set aside three groups that I want to look at.

Those groups are labor, business, and agriculture. And I am sure these are generally, but I would like you to take a look at my point.

For the most part, business has an opportunity to raise their prices, not on an unlimited basis, but certainly raise enough to

keep pace with inflation. Labor, for the most part, demands more wages, and they strike and get them. Then I try to see what happens to agriculture. And apparently the only way that I can discover that agriculture can take a look and try to solve their inflation problem is through additional production.

Now, this is not all bad. I think that is probably one of the reasons why agriculture is one of the most productive industries. We have had to be. That is the survival of agriculture in an inflationary time—is increased production.

Now, this, in turn, causes a multitude of things in the overproduction line and low prices. It also causes the problem that we see in the excessive cropping of land, the bad use—and we are getting away from conservation, because we are working on a production basis to try to work out the inflation problem.

So I guess I would suggest to you that 90 percent of the problems that we are looking at in agriculture today can be traced back and extend back to the fact that we have excessive inflation going on. And I like the stopgap measures. But I think that is probably the one you could tackle to solve most of the problems of agriculture.

I appreciate the opportunity to be here today. Thank you very much.

Mr. BEDELL. Daryl, I might point out that in the material put out by the American Agriculture Investment Management Co., which is the company trying to encourage outsiders to invest in farmland, they list here farmland as a hedge against inflation, and show on their graph how farmland has been a better hedge against inflation than stocks or other investments. And I think it points up your point.

Mr. SIEBENS. This is my point. There is only one reason to invest in farmland at this present price, and that is a hedge against inflation. Without that, we wouldn't have the problems of outside capital. And we are not concerned so much about outside capital as what they come in with, and that is, of course, the tax laws and those sorts of things that are available to people other than the family farmer.

Mr. BEDELL. We thank you very much for your testimony.

We next have a panel of two people—Chuck Hassebrook, Center for Rural Affairs, Walthill, Nebr., and Jim Wolf, Sandhills Resources Council, from Albion, Nebr.

I would like to take this opportunity to thank the stockyards for the use of this building for the hearings. I especially want to thank Leroy Barns.

You may either read your statement or summarize it, whichever you wish. Either way, it will be entered fully in the record.

STATEMENT OF CHUCK HASSEBROOK, CENTER FOR RURAL AFFAIRS, WALTHILL, NEBR.

Mr. HASSEBROOK. My name is Chuck Hassebrook. I am representing the Center for Rural Affairs, Walthill, Neb., a nonprofit unaffiliated organization. I am sharing my time with Mr. Jim Wolf, who is secretary-treasurer of the Nebraska Sandhills Resources Council, which was formed in the Nebraska sandhills in response to concerns over some of the long-run impacts of the large-scale, primarily absentee investor-oriented irrigation developments in that area.

The primary point I would like to stress in my testimony is that I think we are running into some practical problems, some unforeseen structural impacts to trying to use the Tax Code to improve the well-being of farmers in this country, problems both in the nature of competitive position, the shifting competitive position in agriculture in favor of investors and large farms, and also the fact they are really not doing that much to improve farm well-being.

Agriculture is a competitive industry. The benefits the farmers get through the Tax Code are often passed on as they compete against each other. I was talking to an economist, Dr. Mueller, from the University of Illinois, about investment credit. Dr. Mueller said the tax break to competitive industries such as the hog industry, is directly passed on to consumers in the form of lower prices.

I think we have seen that in the hog industry, we have seen tax benefits spur very rapid building of large hog confinement units, rapid expansion in hog numbers, and prices going down. And everything that farmers gained through investment credit, they lost in lower prices.

We see the same thing in capital gains deduction on land. Although it is not necessarily in terms of lower prices, it is in terms of higher cost of production. Benefits of things like capital gains indirectly reduce profits in farming. So they don't improve farming that much.

Likewise, investment credit, accelerated depreciation on machinery. We have seen a lot of buying of machinery due to tax benefits that accrue—investment credit accelerated depreciation. You go out and buy more equipment. You have a lot of farmers that bought more equipment than they otherwise would have, and they need more land to put that equipment to work. So land prices go up.

I think the Tax Code is a situation where land is overpriced relative to the income it can produce. When that happens, it has a very dramatic impact on who owns land and who can afford to buy land. The rapid increase in land values is great for the speculator, guarantees him a long-run return on his investment. For a farmer with a good land base, it provides him wealth with which to borrow and expand more.

It is pretty much of an insurmountable obstacle to a beginning farmer. He doesn't have the money to buy expensive land, and even if he did, the cost of land is so high it won't produce the income he needs to survive. Simply the fact that land prices rise beyond its income-producing potential has a dramatic impact in shifting a competitive position out of the smaller and moderate farmers' hands.

I think the capital gains deduction is enormously important in doing that.

I worked out a small chart, appendix B in my testimony, which shows the impact of the capital gains tax, and it shows rising land prices, what they are, what a good investment land has been for a speculator.

You take Iowa land; you could have bought a \$10,000 piece of Iowa land in 1970; according to USDA statistics, on the average it would have been worth over \$38,000 by 1980. Even after accounting

for inflation and all your interest and principal payments, there is a profit there of over \$15,000, just from appreciation. But with the capital gains deduction, only 10 percent of that is taxed.

Now, to explain that a little bit, the capital gains rules, 40 percent of a capital gain is counted as income, but you get to deduct your full interest and tax payments on that land, and they end up pretty well wiping out your capital gain. So even though you have a very profitable transaction, you pay very little taxes on it. I think that is an enormous way of attracting investors to farmland. As long as that type of depreciation exists in farmland, as long as that type of income receives that sort of favorable treatment in the Tax Code, we are going to see speculation in land and outside investment in land increasing.

And it is particularly worse in the fact that anytime you use the Tax Code to bring benefits to agriculture, it is of most benefit to the highest income farmers. In dealing with the investment credit, it is of most benefit to the capital-intensive farms, which are generally larger.

So in either case, I think we are contributing to the ability of an investor and the largest farms to bid beginning farmers out of the land market, and to foreclose them from buying land.

I also want to make one more reference to an appendix to show—this is using the hog industry—it shows the benefit of various tax provisions in the hog industry. It shows that tax benefits really help.

Appendix C shows if you take the small beginning farmer raising hogs in a remodeled barn, his per hog tax savings, if he is in the 20 percent bracket from the various provisions, is \$3,000. The investor in a hog factory in the 50-percent tax bracket gains over four times that. So it has a very dramatic impact in the shifting competitive position.

That ends my comments. I would like to ask my written materials be made a part of the record, and turn it over to Jim Wolf.

[The prepared statement of Mr. Hassebrook may be found at the conclusion of the hearing.]

Mr. BEDELL. Thank you, Mr. Hassebrook.

Mr. Wolf?

**STATEMENT OF JIM WOLF, SECRETARY-TREASURER,
NEBRASKA SANDHILLS RESOURCES, INC.**

Mr. WOLF. My name is Jim Wolf. I am from Albion, Nebr. I am the secretary-treasurer of the Nebraska Sandhills Resources, Inc., a nonprofit unaffiliated corporation, made up of farmers and ranchers concerned about what we call pivot-to-pivot irrigation development from the sandhills.

Now, my own family has owned and operated about 40,000 acres of ranchland in Wheeler and Garfield Counties, Nebr., for about 50 years. I have been active full time in this operation since 1949.

We breed and raise cattle. We have four operations, four ranch operations, three pivots on scattered sites producing corn on about 450 irrigated acres, less than 1.5 percent of our total acreage. However, this corn production is supplementary to our entire range operation and is invaluable in producing supplementary feed.

The main point that I want to make this morning is that our organization and I favor irrigation development in the Nebraska sandhills on scattered selected sites to supplement traditional range operations. But we are deeply concerned and strongly opposed to large-scale pivot-to-pivot development.

Now, by pivot-to-pivot development I simply mean 4 or more, and in most cases it goes on up to 20, 30, 40, 50, and even 60 pivot developments that adjoin each other. They are placed together for large-scale crop production with little or no regard for land quality and terrain other than the pivots that can be used.

And, of course, that is a minimal limitation today in view of the hill-climbing ability of present-day pivots. They can go up some pretty steep terrain.

Now, our opposition to large-scale pivot-to-pivot development is absolute. It doesn't matter who does it. But it is significant to point out that in our area and in most areas in the sandhills this type of development has been undertaken by nonresident developers and owners. And I think the reason that it has taken place is because, first of all, these people, for the most part, do not understand the fragility of the sandhills, and, second, they do not take a long-range approach to the use of the land as the local residents who have had the experience of knowing how fragile those sandhills are, do.

Sandhills land varies greatly. You could almost say from acre to acre. But certainly as between one quarter section to another.

And when you go in and have these large-scale developments, these pivot-to-pivot developments, the result is a lot of marginal land is used. And we have, first of all, increased erosion potential, both for the developed land and for the land which adjoins the developed land.

Those of us who have lived in the area as long as I have remember that in the 1920's—and this is mostly by hearing it from my predecessors—in the 1920's the sandhills had a similar development for farming purposes, but it was dry land rather than irrigation. The result was the land was gradually abandoned and left to erode until the price fell to such a level that people were able to come in and buy it, often for less than the taxes—I mean buy it at least for less than the taxes, and that brought the price down to a ridiculously low level, \$1 to \$3 an acre.

People then could afford to come in and take the time and the trouble to bring that land back by reseeding it, fencing it out, and so forth.

In addition to the erosion problem, in these large-scale developments we have overuse and misuse of water. Where we have low spots, we have potholes that have too much water, and because the land is uneven, the hills don't get enough. The result is, I think—can be and is—tends to be inefficient production compared to the scattered site selection production. And for this example, I would tell you about our three pivots, that is, two of the three. The first one we put in was on land that has already been used for farming and had been abandoned.

So we put in a pivot system. It is gently rolling. It is sandy, but it is not straight dune sand. There is a depth of about 120 feet of kame. The lift is about 100 feet. Compare that with the No. 2 unit, which is essentially level. It was what I would call third-level

meadow, not wet meadow—but third-level meadow, but it laid very level, has a depth of about 51 feet, and the lift is 150 feet, or approximately half of the No. 1 unit.

The energy pumping cost for 1980, which we just computed, on the No. 1 unit is about \$55 to \$60 an acre, and on the No. 2 unit about \$29 an acre, or approximately one-half.

In 1979, the yield on these two quarters compared was about 130 bushels on the No. 1 unit compared to 160 bushels on the No. 2 unit, or approximately 23 percent more on the better laying unit.

I might also add that this better laying unit, No. 2, had better soil.

Now, large-scale pivot-to-pivot development also greatly increases the potential of irreversible, irremedial pollution of underground water due to intensive use on our coarse, porous sandy soils of large and oftentimes excessive amounts of fertilizer, herbicide, insecticide, and so forth, combined often with overirrigation.

In Holt County, Nebr., which is the county that adjoins Wheeler County on the north, the average nitrogen content—and I should say that Holt County has had intensive irrigation development many years before it came into Wheeler County—the average nitrogen content in the underground water is between 25 and 30 parts per million compared to the national safety standard of 10 parts per million. It runs on up as high as 500 parts per million in isolated instances. It is not uncommon to find 125 to 130 parts per million.

This has had its adverse effects on both humans and livestock, not publicized very much, not as much as it should be, because many people are concerned about interfering with what they consider to be a very desirable economic development, and it is true that in Holt County many areas which previously were very unproductive, one area, in particular, was known as Poverty Ridge, have become productive areas through irrigation development.

I might also mention briefly that there is data coming out of the Platte Valley in the areas where they have high levels of nitrogen pollution that indicates that adult cancer—some doctors say—has been running, certain varieties of it, they think, may come from polluted water, running as high as five times times the national average.

Now, in Wheeler County, last year was the first year that we had the really large-scale pivot-to-pivot development, and our underground water nitrogen levels doubled. Admittedly, it went from .1 to a little over 0.2 parts per million, which, in and of itself is not a large amount, but the trend is what concerns us. And, as I mentioned before, at the present time at least there is no economically feasible way to detoxify polluted underground water on a large scale, that is, for livestock use.

There are devices, I understand, that can be used to detoxify water for domestic use.

When we contrast this type of development with the supplementary development on scattered selected sites which our organization believes is the right way to approach irrigation development in the sandhills, we find the following key points.

We have had this kind of development for the last 15 years with no visible serious effects. The owner/operator who lives on his

ranch or farm understands the peculiar nature of the sandhills, the fragility of the soil, the fact that it once was desert and, if not used properly can become desert again, and generally believes in the trustee approach, which is one of the cardinal principles adopted by our organization; that is, we simply say that we operate the land as trustees and that it is our responsibility to turn it over to our successors in at least as good a condition as we received it and hopefully better.

Personal management in conjunction with the livestock operation also means that we select the better land for development; we don't need very much of it, as illustrated by the figures I gave you from my operation—and I want to point out that on those 450 acres we have produced enough feed to completely supplement, when added to our natural hay production, completely supplement our total feed needs for winter for a cow herd of in excess of 2,000 head, and about 1,000 replacement females, and a large number of bulls, and so forth.

So we only need a small amount of this land to be developed. And we therefore can take the best land and develop it carefully.

We operate more economically because we can't afford to waste expensive water, fertilizer, and other inputs.

An example of what has happened in our area: Very often newcomers—I say newcomers, because that is what they are—they run their operations primarily with hired hands. I run my operation with people who work for me, but I have lived in that area and worked with them. These people come in. They use an inordinate amount of fertilizer. They turn on their pumps and leave them on regardless of whether it rains or not. Of course, if they use too much fertilizer, it is washed down into the underground water, and that is how the pollution of the underground water takes place.

When we first started out, we went to a local fertilizer company for our fertilizer recommendations because we were not familiar with sandhill farming. But after several years, we found that we were better off to employ an independent agronomist, and also at his recommendation to use tensiometers. As a result, we have cut down on the amount of fertilizer we use and the amount of water we use with no adverse effect on our yields.

We also run livestock on all of our irrigated ground to try and put utility and fertility back into the land through the droppings from the cattle.

Finally, we have a concern for our neighbors and the community in general. There have been conflicts between water users already in our area and other areas. There are always problems that come up between people that own neighboring land. The response in our area generally has been, when there have been complaints with ground water problems arising from large-scale pivot-to-pivot development, talk to my lawyer, or it is not uncommon for wells to go dry in your area; it has happened before—in other words, a very tough approach.

And I want to point out that these larger developers who are in high tax brackets, who are paying—can afford to employ attorneys with 30-cent dollars, have a tremendous advantage over the average farmer or rancher who has a difficult time in figuring out how to go about getting redress in the law, much less affording it.

It also has its effect on the small towns, because those of us who live there tend to do our business at home, and support our community, where some of the people who come in do this, but the tendency, however, is to buy wholesale, and buy in conjunction with the place where they reside, rather than where their land is.

What does that mean to your subcommittee? I didn't come here this morning to ask you to come in and take over our problem, because we hope and think that we can handle the basic problem through LB-577, the Underground Water Management Act, which was used by the unicameral several years ago.

We think that act has to be strengthened, and we hope we will be successful in getting that done. But we do want you to understand what our problems are just in case we are not able to handle it at the local or State level. And we do ask that you tighten your Federal tax laws, subsidies and loan procedures in any way possible to discourage breaking up this fragile sandhill land for large-scale pivot-to-pivot development, because we think that it is adverse to the long-range interests of that area, the long-range agricultural interests of not only that area, but our State and the Nation.

One possible approach that you might want to consider for the larger developments that I have talked about is the requirement of an environmental impact statement in advance, so that it would not be possible for these people to come in on the scale they have been coming in without first meeting that test—I don't know whether it would be the EPA or some other agency; I assume the EPA might be the logical one—that would say, well, if you are going to have something more than a scattered site development of irrigation in the sandhills, you better show us what it is going to do.

I want to thank you for giving me the opportunity to speak to you this morning. It is a privilege and a pleasure to be here.

Mr. BEDELL. Thank you, Mr. Wolf.

Mr. DASCHLE?

Mr. DASCHLE. Chuck, you were talking about the tax laws. It seems to me the one problem we have with regard to tax laws is that they are so inequitably applied to big and to small. And they are inequitably applied—maybe utilized is a better term—simply because of the tremendous complexity involved with regard to the use of tax incentives. A small farmer, small businessman, for that matter, but especially a small farmer, simply doesn't take advantage of those tax advantages sometimes because of the tremendous complexity involved.

You were talking about depreciation. In the testimony we had at a hearing held in South Dakota a couple of months ago, we found that very, very few, in fact I think it was less than 10 percent of small businessmen were using the asset depreciation range schedule because of its complexity. And I would venture to say that farmers are even less inclined to use that system.

Would you not say that one of the reasons that we find this to be true is because of the complexity? And if we simply change that, for example, through the Capital Cost Recovery Act, the 1053-A approach, would we not then be providing an incentive for small

farmers to be as active in their use of tax incentives as we are the big farmers today?

Mr. HASSEBROOK. Yes, I would agree, something to simplify the Tax Code would help a lot, because I think you are absolutely correct in that the advantages go to those best able to handle the complexities of it. But I think there are other problems—any measure that would speed up depreciation or increase any sort of a credit or writeoff on investments in machinery or land.

It is simply that the smaller the farmer, generally speaking, his ratio of new equipment, large equipment, his money invested in equipment is generally smaller per acre, I would venture, and the amount of labor he puts into it is a little higher per acre. Just because of that basic relationship, the larger farms are more capital-intensive, any subsidy to capital will be of more benefit to your larger farmer. I would certainly agree that complexities in the Tax Code make that even worse.

Mr. DASCHLE. But the capital they are using now is already benefiting the larger farmer. It is not benefiting the smaller farmer simply because of accessibility to those benefits. I think once you go beyond that, once you apply the equal access, then it becomes a management function, it seems to me. If they go out and buy unnecessarily a large piece of equipment, that is a bad management decision, and it really doesn't relate as much to the advantage that they have or the disadvantage they have in using the Tax Code. Would you not agree with that?

Mr. HASSEBROOK. No. Whether or not that is a wise economic decision, there are two ways of looking at that. You can look at the wisdom of that economic decision before its tax impacts, and they are going to be quite different than the economic wisdom of that decision after tax impacts. Those tax laws affect when it is time to make an investment. So tax laws, through plain dollar-and-cents economics, tell farmers to buy newer and bigger equipment much sooner.

When you are talking about size of farm, you are talking about a tradeoff, at least in this day and age. Are we going to bring in more large technology into agriculture and thereby reduce the number of farmers? Are we going to stabilize the amount of technology, the number of farmers?

I believe that economics today is dictating it is about time to stabilize; it is no longer efficient to be bringing in more and bigger technology all the time. But I think the Tax Code is upsetting that economics and distorting the economics of that and making it profitable to buy more and bigger machinery, even though it might not otherwise be economically justified to have 2,000- and 3,000-acre farms.

Mr. DASCHLE. I just think there is one other point I would make. These young smaller farmers getting into the business are faced with this same maze of tax law that is the larger corporate farmer. The corporate farmer can hire the accountant to go through and depreciate out his buildings and things.

The smaller farmer cannot do that. So he simply will pass it up. And it is one more obstacle he faces that the corporate landowner does not. And I think that the incentives are fine as long as they are equally accessible. And I just don't think they are today.

I appreciate your testimony, both of you.

Mr. WOLF. May I just comment on that?

Mr. DASCHLE. Yes.

Mr. WOLF. If I understand what you are saying—I think what you say is correct. I speak for myself. I am a larger farmer. We get a lot of benefit from using a very experienced accountant. It seems to me that it would not be unreasonable to consider the possibility of exempting X-amount of dollars from this—from the regulations to give the smaller farmer a simple way and an incentive to go ahead and make the investment he wants to make in land, equipment and facilities. Is this the sort of thing you are talking about?

Mr. DASCHLE. I don't know about that approach. The Capital Cost Recovery Act would simply depreciate the investment out at three different levels, rather than 143 or 144 levels we have today. I think we need to simplify that approach to make them accessible to smaller people who still are at that level that they make out their own tax forms.

Mr. WOLF. Right. Well, it seems that the smaller farmer does have that problem to wrestle with.

Mr. DASCHLE. Thank you.

Mr. BEDELL. Thank you, Mr. Daschle.

Mr. GRASSLEY?

Mr. GRASSLEY. Well, I suppose in Iowa my 300-acre farm is a garden spot compared to what you folks farm in Nebraska. My son is farming our farm now. But I wanted to get to the issue of the \$15,000 figure you used. Did that take into consideration inflation? Was that \$15,000 profit above inflation?

Mr. HASSEBROOK. Yes.

Mr. GRASSLEY. It was an actual return?

Mr. HASSEBROOK. Yes.

Mr. GRASSLEY. Not an inflationary return?

Mr. HASSEBROOK. Actual land price appreciation was \$28,000—but considering inflation and ownership costs, it got down to \$15,000.

Mr. GRASSLEY. You probably said that, and I missed it. I am sorry. I appreciate that, because I think it is very important we take that into consideration.

And then I want to ask Jim, your point for us is that tax laws have encouraged outside investment, not just in land, but in the irrigation. And that has promoted not only unfair competition to the family farmer in your area, but also abuse to the land.

Mr. WOLF. That is correct.

Mr. GRASSLEY. When you talk about fragility, in the sandhills, and I have only been through the sandhills once, and obviously don't know them from the standpoint that you just told us about, it probably is a problem in a lot of other areas of the country.

So my question to you is, is the problem you relate about the sandhills applicable to a lot of other places in the country, just a few, and if it is to a lot of other places, name a few that you might be acquainted with so that we know if, in fact, this isn't just an isolated problem.

Mr. WOLF. Well, the sandhills is a pretty large area. But it would apply to any area where there are sandy soils and large amounts of

land that are relatively underpriced to existing farmland on hard ground.

Mr. GRASSLEY. That answers my question. But, in summary, then——

Mr. WOLF. Where?

Mr. GRASSLEY. Well, I don't know if you have to be that definite. But you at least are talking about a problem beyond the sandhill area of Nebraska.

Mr. WOLF. Oh, yes. I was trying to think. There are other areas where they have sandy ground that could be or is being abused in the same way as this is. But we happen to have in our area an unusual combination of this type of land with large amounts of underground water reserves. That is what makes the sandhills unique. And they really are rather unique. But there are other areas.

Mr. GRASSLEY. But your message to us is that this is a problem that we ought to be concerned about other than just in the sandhills of Nebraska.

Mr. WOLF. Yes. Where the circumstances fit. And I must be honest and say that I cannot say, I cannot name you specific areas right offhand.

Mr. GRASSLEY. But at least you feel that it is a problem beyond the sandhills?

Mr. WOLF. Yes, I do. I think—a point in illustration—how we are encouraging misuse of our natural resources through our tax policies, where it just happens to fit the situation. And I think there are situations—in fact, I think perhaps we have irrigation development in other places where they don't have the pollution problem because the soil is tighter, that it is really marginal, except for the tax considerations.

Mr. GRASSLEY. This is a little more general question, but it does deal with taxes. You have heard the three of us and Senator Culver's representative, and I think the Farm Bureau representative speak about the need for State tax reform, and we have suggested specific changes. Do either one of you find any fault with suggested changes in the State tax laws that have been presented or suggested by other people?

Mr. HASSEBROOK. I guess I would say I am not familiar enough with them or have not the background to comment on that.

Mr. WOLF. I have a little background on it. It is my impression what you are doing with the State tax law in the first place is trying to bring it up in accord with inflation, and to arrange it so that the family farm is not destroyed in the process of settling estates, which has happened more frequently than we would like to have happen. And I certainly am in accord with that.

Mr. GRASSLEY. That sort of reform you don't find detrimental, nor are you philosophically opposed to as it affects the family farm. You are talking mostly about the income taxes and depreciation and of farm money finding shelter in agriculture, that sort of thing.

Mr. WOLF. Yes; I wouldn't say offhand I would positively advocate this. But I think it is something that might be considered as a more progressive approach to depreciation, as a point. And I touched on it before in regard to Mr. Daschle's question—there is a

flat level for the minimal or the family farmer that applies, and as the size of the operation increases, you might apply the same principle as the income tax.

I know it is a different sort of an idea, but one that might be considered. I might say in my own operation, it might backfire a little bit. But I think I would be willing to accept it, because if it were worked out to achieve the kind of balance I would like to see achieved.

Mr. GRASSLEY. Thank you, Mr. Chairman.

Mr. BEDELL. We certainly appreciate your testimony.

Mr. Wolf, I think you hit upon something that I happen to agree with very, very strongly. I have a major progressive income tax proposal in the House of Representatives. It just appears to me all through our society we have such big advantages for bigness—our Tax Code—that unless we somehow recognize and admit those concerns, that we are going to see the little guy, not only in farming but everywhere else, just lose out to bigness all through our society.

And I should tell you any time we have had any proposal of any kind toward limiting payments, for example, or limiting benefits, or progressivity in benefits, the Department of Agriculture, be it under the previous Republican administration, or this administration, is absolutely dead against anything we have ever proposed, and we fight a battle.

Mr. WOLF. It is a battle. We find we are fighting the same battle in our program to update and strengthen our Underground Water Management Act in Nebraska—the same sort of thing. I guess I have to say that what I say to the people back home is we have to stand up on our feet and demand what we believe in. It is a difficult problem. It really is.

Mr. BEDELL. I have about a 100 questions I would like to ask you, because I think you folks have hit on a lot of serious problems we have.

Is your water table remaining pretty stable there as far as your wells are concerned in your area?

Mr. WOLF. Well, you see, last year was really the first year that we had this large-scale pivot-to-pivot development in our area. Now, there are areas in Nebraska where the water table is declining, and in three, I believe, of those areas, or possibly four, they have what are known as control areas, set up under the natural resources district. But they are actually presiding over a declining water level. And it is, number of years, 25, 35, 50 years.

Now, in our area, our specific area, which is Garfield-Wheeler and Boone Counties, we asked for a control area last year, and we were refused. And the reason we were refused was because we could not demonstrate that there had been a permanent decline in our water level. And that is true. We have 400 or 500 feet of water-bearing sand up there. Now, what we are saying, the group that I work with, and I go down this week to testify before the Public Works Committee in Lincoln, we think that if the local people want to act in advance of the time when they have a declining water level, they should have that right.

Mr. BEDELL. Because when it starts to delinea, it is going to continue to decline.

Mr. WOLF. Too late for herbicide. And the same way for the pollution. When it is polluted, it is really too late for herbicide, unless we have some kind of a magic formula that we don't have today.

Mr. BEDELL. Is there some of that land that even with irrigation is questionable as to how well it would produce and how long it will produce?

Mr. WOLF. Yes, that is the problem. In order to get the advantages of large-scale farming—most of these are just straight corn production operations—they take a lot of marginal land. And when the wind blows in the spring, after the corn is planted, that sand will just cut that corn off like a razor. Then when you compare that with the more level land, you don't have that problem.

The potholes we get up there, that I mentioned, because the land is rough—a lot of the land they are taking is rough, is marginal. Then you get potholes with too much water, and, of course, they don't produce any corn. And then you get knobs that the sand blows, and there is no corn there. You have sand blowing over on the neighbors, burying the fences.

Mr. BEDELL. The reason I would like to have more time with both of you, I have been fairly involved in the O'Neal proposal out there, and some of these questions have been asked. Firsthand information is always better. When people give you the information, you don't know whether they are giving it to you from a prejudiced standpoint or not.

Mr. WOLF. I would be happy to furnish you with whatever I could. Or I could try to find it out for you.

Mr. BEDELL. I am sorry, Mr. Hassebrook, we don't have time to talk more with you. It appears to me you have hit on a really critical issue, and that is how the laws of our land, particularly our tax laws, affect the direction of our society. I take it it is your feeling that our tax laws are such that they direct away from the family farm and toward more outside investment and bigger and bigger operations. Is that correct?

Mr. HASSEBROOK. Absolutely; yes, sir.

Mr. WOLF. And I agree with that.

Mr. BEDELL. It is pretty big of you to do that—

Mr. WOLF. I am a sizable operator. But I do agree with it. I, for one, would welcome the kind of limitations that you have discussed on payments, on subsidies, even though it would mean dollars probably out of my pocket, because I don't think we need it, like the smaller farmer.

Mr. BEDELL. We certainly thank you both very, very much.

Mr. Daschle, would you like to introduce the next witness?

Mr. DASCHLE. Mr. Chairman, the next witness is a man known in South Dakota for his articulate espousal of agriculture, and especially family farms. Oren Long is an active member of the South Dakota NFO. He is on the board of directors of the National Farmers Organization. He is from Olivet, S. Dak., which is in my congressional district. Oren, I am sure, I speak for the whole subcommittee this morning in welcoming you.

Mr. LONG. Thank you, Mr. Daschle.

STATEMENT OF OREN LONG, BOARD OF DIRECTORS,
NATIONAL FARMERS ORGANIZATION, OLIVET, S. DAK.

Mr. LONG. Mr. Chairman, we appreciate the opportunity to present our views in behalf of the midrange farmer-owner operators who make up most of the membership in the National Farmers Organization.

I am Oren Long, of Olivet, S. Dak., a farmer and a member of the national board of directors of the NFO.

Perhaps I should first express the hope that your good efforts will eventually be blended with the recommendations of Secretary Bob Bergland, stemming from his farm structure hearings and the recommendations of producers in the final makeup of a 1981 farm bill. The National Farmers Organization will have specific recommendations at the appropriate time. The challenging problem of designing a new farm program that fits our current situation is being discussed among NFO leaders. It is encouraging that you are taking the leadership to generate this type of thinking at an early date.

Our biggest problem is the prices received for commodities that we are selling from the farms. The Government does not have some special responsibility to write checks from the Federal Treasury to pay for our production. You do not owe us all that our products are worth. We believe in organized bargaining for a fair price, and we recognize that farmers must take a major share of the responsibility if they are to receive profitable prices.

If we are to have a farm program, however, in which farmers can work as partners with the Government, to avoid bankruptcy and other related economic disasters on the bottom side of the price cycles, then we would hope that that program could be designed to serve the midrange efficient owner/operator or the tenant/operator who is really farming for a living.

Many people try to define the type of farming I mentioned. I am speaking of one who takes the capital risk, supplies the management, and who does much of the work in the actual farming operation. We have been losing about 2,000 of these farms a week for several years. This type of erosion over 30 or 40 years has already brought us to the point that in many Midwest farm counties today, only 20 to 30 farmers are producing about one-half of the production output.

We are told that the records today show that the largest 10 percent of farmers in the Nation receive nearly 50 percent of all farm program payments. The largest 50 percent of our farmers receive about 90 percent of all program payments. We are not even sure that the attempted limitations on payments used in previous programs is an effective answer.

We suggest that you stop and take a careful look at eligibility to participate in these farm programs. For the time being, let me suggest that it clearly should not be a matter of Federal farm program policy to extend aid to the large business corporations, foreign investors, and similar institutional groups who are competing unfairly with our family farmers.

Interest rates have subsided slightly from the highs of early this year. This was almost predictable. That caught us at a time when we had to borrow heavily for spring operating. It is the fallout to

follow that should be of concern to you as it is to the leadership of the NFO. In visits with country bankers at separate points in the Midwest, we are advised that some of those banks expect to lose about 20 percent of their remaining farm accounts by next spring.

Those extremely high interest rates, coupled with other increasing costs of operating and serious drought in certain areas are simply more than we can carry. The prices for our products, even though somewhat improved recently, simply will not pay the bills and provide any reserve for next year's operation.

Many of our farmers are growing quite resentful of the pressure put on them to come in for some refinancing arrangement before they go into the fields each spring.

It is regrettable that I may appear to be critical or concentrating so hard on the dark side of the farm economy in this brief hearing, but it is important that you understand what we are up against.

Aside from the undesirability of moving most of our land and source of food supply into the hands of the large corporations, rural America, as a whole, is going to face serious problems in the recruiting of adequate managers to maintain production. Let me say it this way: Some of those highly organized and productive units that I mentioned earlier are in the hands of a generation that learned to assemble the hard work, the management, and the know-how to run these larger units. It is highly doubtful that the next generation will work those long hours and try so hard to maintain that production without the initiative of personal ownership.

If someone thinks that they can bring out some young people from the cities and train them to recognize and deal with plant and animal disease, insects, fungi, weather conditions, large investments, the daily cash-flow problems and have a capable managerial force running the land, they had better take another look.

We are trying to advise caution about any further reduction in the ranks of farm people who know how to run these farms. It is important to the other taxpayers of this Nation who are interested in the price of food and who have become accustomed to being well fed.

We sincerely feel that it is no longer fair nor acceptable to continue the migration of the farm population to the cities. This has been underway for some 40 years. Surely the Nation has learned that it is expensive to absorb these good people in the cities. Unemployment, overloading public utilities, crowded housing, the increasing crime problem and the evidence of national mismanagement have become all too apparent.

We believe that the lessons must surely now be very plain for all to see.

When you set up another farm program, we hope you will think in terms of prices that return the cost of production to family farmers and give them a chance to make a profit. We have to have a good bill in 1981. We can no longer afford to farm at a loss for 3 years while waiting for the usual improvement in farm programs and prices that seem to develop in miraculous fashion in those years when we have a Presidential election.

In closing, let me emphasize that we do not come in here today with special proposals that can obviously be developed over the

months ahead. But we do appreciate your timely interest; we have confidence in you, Congressmen Bedell and Grassley, and our good friend from South Dakota, Tom Daschle.

We will continue to work closely with you in the coming months, and we expect you to be helpful in the Congress when the next farm bill is written.

I thank you.

Mr. BEDELL. Thank you, Mr. Long.

Mr. Daschle?

Mr. DASCHLE. Oren, I want to thank you for a very good statement. This being another one of those miraculous years, I am very encouraged by what I am seeing in the marketplace. But next year I'm not. And obviously, as we go into 1981, some of the things you have raised here are going to be those very direct issues we are going to have to look at.

I would be interested, though, in your point of view if you could simply, address how you look upon the tax structure as we are faced with it today—the estate tax structure, the capital gains, and the depreciation ranges that we are looking at today. As a member of NFO, what position does NFO take with regard to taxes?

Mr. LONG. Well, I must admit—as you know, we are basically a farm bargaining organization and direct our major efforts to this line of thought—that the family farmer must, through cooperation within an organization, bargain for, should I say, the top end of his profit figure. So far as taxes are concerned, they are very inequitable, and become more so as you look at the smaller unit, so to speak.

I don't sit here and maintain that we must keep the very small 160-acre farm as the ideal of the Nation by any means. I think we come off the subject a little bit when we start naming acreages. However, the smaller end are those that are the ones that are most susceptible to the disadvantages of the present tax structure.

Mr. DASCHLE. Have you found in our bargaining, in the organizational workings, that you have been successful in establishing now over the last 10 to 15 years that the size of your members has grown substantially, or have they stayed fairly much the same, given the kind of marketing technique you have developed? What has been the progress?

Mr. LONG. I am sorry to say, yes, they have grown. I would say that they have grown unproportionately. Now, this can be two things. Perhaps a business-like approach is an appeal to the larger operator—I think is one of the principal reasons why the membership in the NFO is probably going and tending more to the top end of the scale.

I don't know whether this is good or bad. It scares me in many ways, because, as I mentioned in here, no longer does this hold true in farm payments collected by these larger farms. But this holds true right straight across the board—that top 10 percent is producing 50 percent of the food and fiber of this Nation today. I think that is the correlation that was given there.

So I feel it is a combination of things that was mentioned before. Everything has been structured to bigness and to efficiency. And if you didn't want to do this, you were asked to get out, literally. I think we have had several Secretaries of Agriculture that have

made those statements over the past years. And I can't quite buy that.

I think there is a definite place for—we have to maintain the family-type farm.

Mr. DASCHLE. Thank you, Mr. Chairman.

Mr. BEDELL. Thank you, Mr. Long. We appreciate your being here.

Our next witness is Jo Anne Neuzil, with AGri Services in Iowa City, Iowa. We appreciate your being with us, Jo Anne.

You may proceed as you wish.

STATEMENT OF JO ANNE NEUZIL, AGRI RESEARCH AND INFORMATION SERVICES, INC.

Ms. NEUZIL. Thank you, Congressman, and Congressman Grassley, for letting me be here, and Mr. Daschle.

AGri Services is a resource group concerned with helping insure that farmers and other agriculture professionals have access to the best financial, regulatory and legislative information available. Our goal is simple, we want to be certain that agriculture gets a fair shake in this tough economy. We believe this is important not just for farmers, of which I am one, but for all consumers.

A fair shake for agriculture requires, among other things, equitable and practical response from the Government. Also necessary is some understanding of the complex issues of agriculture by our news media which carries the farmers' story to the city and to some extent to national leaders who can influence farm policy.

Those of us involved with AGri Services—which stands for Agriculture Research and Information Services—believe that timely information for and about farmers will go a long way toward furthering our goals.

Therefore, I am particularly appreciative of this opportunity to discuss with you the future of our family farm system. Also, I want to commend the committee for bringing this important hearing to farm country rather than asking us, at harvest time, to pack our bags for Washington.

The family farm has had such an historically important part in food and fiber production through the years and will certainly continue to be, but now it is under fire because there is some controversy as to the size of the family farm and what a family farm is, and to how it can be incorporated. There is confusion about incorporated family farms and incorporated nonfamily conglomerate farms, and there should be a distinction made.

Right now, there is much study needed on the situation. I want to commend the USDA for some of its studies. In January 1979, Secretary Bergland declared that USDA policy would seek to reserve a place for the small family farm operation. The Congressional Agricultural Committee has made a thorough study, working in conjunction with the USDA to learn about foreign agriculture investments—which are of great concern.

What encourages a farmer to keep farming? He likes to be outside and work close to nature and livestock and doesn't have to punch a time clock. He makes his own decisions. He can take pride in his work and the appearance of his farm. It is a good place to

raise a family; children learn to work and handle responsibility at a young age.

The family is closer knit because the members are working together. The father and the children get to know each other better because they are working together, as opposed to the situation where the father goes to the office, factory, et cetera, and the children do not even know what he does for a living.

The element of a gamble is there and the hope that next year will be better and maybe you can make more some years—you can also lose—but still this makes for a little more variety and maybe adds a touch of excitement.

Pride in building the farm up to be better than it was when you started is very important. Building the soil fertility so the next generation will have plenty of food and fiber is an active concern of today's farmer.

A farmer will work harder because he wants his children to inherit a better farm, although the estate taxes are taking away this important incentive today. As your booklet report says, the taxes for family farmers help the investors, too. I feel we are self-defeating there. On an average, most farmers rent more land than they own.

Foreign investors are a growing concern to the family farmer. The income generated does not stay in the community. This causes businesses and small towns to fail. When foreign investors or professional people—doctors, lawyers, et cetera—buy farmland, it tends to make the price of land higher.

Then the young people who have grown up on the farm and want to farm cannot afford to buy the land, so they seek other jobs.

Nonresident landowners tend to be mainly interested in present income and do not always allow crop rotation and soil conservation methods that would be better for the land. When professional people buy farmland for an investment, they still expect to get paid when a drought or flood hits and produces a crop failure. That is like asking the taxpayer to bail me out if I were speculating on the stock market and lost heavily.

Many Federal programs that are designed to help the family farmer end up filling the pockets of shrewd professionals who invest money to buy more farmland away from legitimate farmers who are trying to make a living off the farms. This vicious cycle puts the true farmer in a price squeeze and keeps young people from getting started.

Added to this is the high interest rates. Because of the large investment a farmer has, the interest rate is tremendous. The average American farmer has \$500,000 invested per worker. General Motors has only \$40,000 per worker invested, and IBM has \$60,000 per worker. Even Exxon has \$350,000 less invested per worker than the American farmer. If the number of farms gets too small, in other words, if the farms are in the hands of only a few people, those few people can control the whole Nation. If this happens, the consumer will find the price of food will become outrageously high, for two reasons.

One, competition tends to keep the price down.

Two, if the labor of the farm industry is done by other than family-owned operations, it will take two to three times as much

labor, because hired labor is not going to work the long hours that the farm owner does now.

The farmer will work late to get his hay or whatever put away before a storm, but a laborer will just walk away when quitting time comes, like they do in Russia now. The livestock will not receive the tender loving care, either.

Also, the family farm has the free labor of the wife and children. Bigness does not always mean better or more efficient. Livestock, in particular, have a higher death loss in larger operations which are not run by a family operation, I might add.

Churches are also buying land. For example, not many miles from where I farm, Shiloh, near Kalona, Iowa, the Mormon Church recently purchased 1,000 acres or more near Parnell, Iowa.

In conclusion, farmland ownership by nonfarmers leads to exploitation of the soil by overcropping, soil erosion and usually poor conservation practices. Ownership of land by large corporations causes special problems by tying up land and therefore making it unavailable to beginning farmers or the farmers seeking to expand. Since corporations do not have a natural life, the land can stay in their hands indefinitely. Because most land comes on the market in estate sales this decreases the amount of available land.

If you survive everything else, the estate taxes will get you. High interest rates will also keep young farmers from investing in farm operations.

AGri Services gears its service more toward the mature farmer rather than student farmers as Iowa State University in Ames. We have no intention of competing with their fine services. What we offer is not available in any one place until now. AGri Services' library is the only one which will provide financial, regulatory and legislative information to complement rather than compete with other libraries.

Mr. BEDELL. Thank you.

Mr. Daschle?

Mr. DASCHLE. I want to thank you as well. I thought that was certainly a fine statement. I appreciate it. I have never seen the figures that you have related here. And these are quite good. That is, regarding the amount of money invested per worker. Have you seen a shift? How does this relate to, let's say, 10 or 20 years ago? Have you been able to do any comparisons on that?

Ms. NEUZIL. No; I really have not done a comparison. I just realized it was quite a bit more higher.

Mr. DASCHLE. On what are these figures based?

Ms. NEUZIL. I got them from my Washington, D.C. correspondent, from the Beltsville Library.

Mr. DASCHLE. General Motors is only \$40,000; the American farmer is \$500,000?

Ms. NEUZIL. Right.

Mr. DASCHLE. That is really amazing. Thank you, Mr. Chairman.

Mr. BEDELL. Thank you, Mr. Daschle.

Tell us about AGri Research and Information Services a little bit.

Ms. NEUZIL. It is an agricultural library that actually has support of its own. I have on file more of the regulations and abstracts from Washington, D.C.

Mr. BEDELL. Who pays you?

Ms. NEUZIL. We are self-supporting.

Mr. BEDELL. The farmers join the organization?

Ms. NEUZIL. Farmers and financial groups and local people, community people. It is a card subscription for a nominal fee, pays to get this information.

Mr. BEDELL. We appreciate your testimony. We appreciate your being here.

[Material submitted follows:]

AGri Research and Information Service

After three years in the planning stage, an informational resource service for farmers and agriculture professionals is formally underway. As a key leader in this agriculturally significant region, we want you to be one of the first persons to be informed as to our goals, aspirations, and true capabilities.

Our name is AGri Services, with its longer version being AGri Research and Information Services, Inc. Our national headquarters is in Iowa City, but we also have a Washington, D.C. office that forwards government information to us when appropriate. We are concerned with ensuring that all persons involved in the complex agriculture system have access to the best available financial, regulatory, and legislative information.

Our goal is simple, we want to be certain that agriculture gets a fair shake in this tough economy. AGri Services aims to help out in this area by seeing that producers, farm suppliers, and dealers have access to timely and accurate information, and second by working to get agriculture's story out to the general public.

Housed in our Iowa City headquarters is a reference library designed specifically for farm business needs. Besides containing the usual business periodicals such as the Wall Street Journal and the Journal of Commerce, through on-line computer arrangements with private and federal library services, the AGri library has a regular abstracting service with more than 700 farm publications.

Also in the AGri library is a large capacity microcomputer for use in retrieving agricultural resources both locally and nationally, and for solving farm problems through a variety of available software programs.

Another aspect of the library features a collection of farm industry video cassettes with equipment to view them.

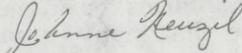
AGri Services developed with the support of local community leaders and agriculturally knowledgeable persons involved in various fields that are concerned with a strong, prosperous agriculture. We will need support from many individuals as well as groups in order to make AGri Services successful in responding to the information needs of farms and businesses. It is our hope and goal to make our services the best in the field. We know that this can be accomplished and our service and reputation will be as common in the field of agriculture as apple pie in America.

AGri Services plans to seek foundation and subscription support to further its growth as needs dictate, but to encourage maximum use of these facilities, a library card subscription is offered at a nominal fee.

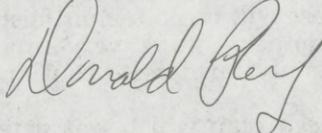
On November 8, we open to the public, and at that date we hope that you can be with us. In the next few weeks, we will be sending out invitations to the AGri Services Open House. We hope you can reserve that date now.

Sincerely,

JoAnn Neuzil



Donald Kerf



JN:jp

Mr. BEDELL. Our final witness before we adjourn for lunch is Dean Chapman, a realtor from Sioux City.

STATEMENT OF DEAN CHAPMAN, REALTOR, SIOUX CITY, IOWA

Mr. CHAPMAN. Thank you, Mr. Bedell. Thank you, Mr. Daschle and Mr. Grassley.

I appreciate the opportunity to speak, and I especially appreciate that you bring this topic to the Midwest and to the heart of agriculture.

I am Dean Chapman. I have a farm real estate business. I am not in farm management.

It appears the question is whether to restrict or not to restrict the ownership of farmland. I might say that from a selfish standpoint, if you would attempt to somehow create a law that would restrict ownership to a specific group of people, it might be very profitable for my business, because if we had, along with that, some requirement that people must sell their property within 3 to 5 years, or some similar range, if they are an absentee owner, we might truly flourish in the real estate business for that period to develop substantial sales.

I might become rather well off, if I got my reasonable proportion of those sales. But while I might be getting rich, I would like to have us take a look at what else might likely happen.

Whoever proposes such legislation to restrict the ownership of land to one group probably does so with very, very good intent. I do not doubt that one iota. But how many matters that were created in good intent resulted in chaos.

In my view, if a Federal act is created that would limit farmland ownership to those who presently own and operate farms as was attempted in Nebraska a few years ago, one, I believe the bill of rights which gave all citizens the right to own property will be snuffed out, taken away, robbing many citizens of their inalienable rights. One of the prime reasons for the American revolution was the king owned most of the lands of what we now call America.

Two, I am very much for the family farmer, and being for the family farmer, I want to see this country back all family farmers, family farmers who own and operate farms. But also family farmers who lease, rent, sharecrop, and custom operate the farms that are owned by absentee owners.

Again, I am not a farm manager, so I do not have any axe to grind in managing farms for absentee owners.

I am reminded that many present farmer owner/operators were once former tenant family farmers. If there are no absentee owners, there will be no tenant farmers.

Again, another, I think, very strong ground for family farmers—I want all family farmers to continue to have the right to operate farmland.

A Nebraska plan which was defeated in the unicameral, which would give no right to anyone to buy land who is not now a farm owner/operator. It was defeated. This would have been an unconscionable restriction on the individual rights of tenant farmers who never ever would have been able to buy a piece of farmland if that act had been passed.

No city person, no student, no former farm boy who may have gone to town for some reason for several years and now decides to retire back to the farm would have been able to buy farmland, since he would not have been a farmer/owner at the moment of the inception of the law.

Three, we should recognize that to deny farmland ownership for absentee owners, it will also deny the right to own by such persons as the widow who works side-by-side with her husband for 40 years to work the soil, milk the cows, et cetera, to build an estate for her, her family, her children. She might now not be able to own the farm and use the services of a family farm tenant or farm manager to provide her later years with income, with some sense of security and comfort. Should she be forced to sell her farm since she is an absentee owner?

To send the major part of the sale price of that farm to the U.S. Treasury in the form of gains tax, perhaps put the remaining income of the sale in an account only to see it dwindle because of inflation?

I don't believe this to be, but I still throw the question, is this an administration or others' plan to force the sales of large tracts of land and bring in much new tax money into the Treasury.

I see no reason of conscience that we can use to take away the right of ownership of land for any person. No matter the tremendous value of farmerowners in production, and no matter the personal feelings for family owners, farm owners, that I think all of us have, we must recognize that every time we take away one person's basic rights, we start a trend to nip away at others rights for those and other people.

If we say that only owner/operators can own land, we can just as easily literally move the rights which could prevent such as farmers' sons and daughters from obtaining law degrees, medical degrees. In other words, just make them stay on the farm because they are farm kids.

Farmers can perhaps no longer move to town and start an implement business or start the local grocery store. They might not be able eventually—and this may seem farfetched what I am getting at here, but I am reminded that just a few short years ago, when the ban on corporate and foreign farm ownership was introduced in Iowa, I wrote an article presented to the Sioux City Journal, suggesting that while there might be some commendable attributes in this plan, that it could lead to the deterioration of other rights, such as the attack on investment owners or absentee owners which include widows, et cetera, and the Journal refused to print my article because they said it was so ridiculous that no one would ever propose that.

Within a few short months, an eastern Iowa legislator says, "Now we have got the corporations out of it; now we are going after the absentee owners and investors." So we do start with one thing with good intent and lead on to others. We might even say there will be no more landlords in any case, no more duplex owners, unless they live in the thing that they own. They can be owned only by residents. We could go on and say there will be no more chain groceries, fast-food restaurants, or gas stations, that you must own and operate each local business. No longer should a

farmer be able to have a feed company-poultry setup on his farm. He must own and operate it.

How ridiculous that we have anyone in Washington even suggesting that the right to own property is only available to a specific group. It is true in many countries there is no such right of an individual to own property. We don't need that.

A restriction of ownership to one group may well be a step toward limiting to Government ownership under the guise of knowing better how to produce more of any crop.

There was a time in the Old World countries when a man could not become a master carpenter unless his father, a carpenter, died or retired. The same was true for masons and most other fields of trades. Only lords and earls could own land.

One thing, one right, that excites more Americans about America after the right to elect and the right of religious freedom is the hope and the right to look forward to owning land. This is a hope of all Americans, not just of one group.

The scare tactics of claiming that absentee buyers are running the price of land up is mainly unfounded. Experience shows that existing farmers do most of the buying, neighborhood bidding against neighbor, brother against brother. I can cite many cases, but time would not allow.

Peter Croghan and his brothers own 440 acres between them and rent other land from an absentee owner. Shall we take the rental farmland away from him because there is an absentee owner someplace in the picture?

Most farmers have wives and children. Some have children who are not farming and don't really care to farm. Mr. Bedell said one of the criteria to determine what is or who is a family farmer and concerned about a family unit is the one who provides the bulk of the capital and the labor and the management within their own family.

If the farmer/owner becomes incapacitated, where he cannot physically operate the farm or manage the farm forever or for 1 year, or 1 week, where is the cutoff that we should use to force him to sell, further stripping him and his wife of their livelihood, because if he cannot now manage, he loses one of the criteria that you have established as the family farmer.

One of the Congressmen said that 50 percent of the land will be operated by farmers of 2,000 acres or more in the near future. Well, I know of one owner/operator who now operates 11,000 acres. And that is in the sandhills area that Mr. Wolf referred to. It is irrigated cropland. He is an owner/operator larger than many absentee owners. I would continue to respect his right to own. I would not want to restrict it.

Mr. Grassley says that family farmers are more efficient than corporate farms, and this is exactly the reason that corporations will not make heavy inroads into the farming industry. When stockholders find that farming is not profitable, they will insist on dispersment of the farms and the sale of it. Stockholders tend to want profits.

Gates Rubber is a classic example. Many years ago, we were all terribly concerned, and I was one in spite of my view here, that corporations like Gates Rubber would buy up the whole country-

side. Well, it didn't take very long before they found out they were not as efficient as the family farmer, who has his own management and labor and money problems, and so on.

And so within a few short years, they found, as most large corporations, that they cannot economically farm operations for the profit of it and so they sold their farms. And this goes on all over. Corporations buy; they later find out they cannot compete, and so they get out again.

Mr. Daschle said we could use, I think, the dollar investment or worth in the farm and the parties' investment outside of the farm as a criteria as to his right to own land. An absentee owner understands this plan might start out with a greater investment in his farm, but he might have his outside interests grow faster. He might invest in some other company, eventually fitting the criteria Mr. Daschle would use, not personally, to say you must now give up the farm.

A farmer may own stock in A.T. & T. That stock might flourish at the same time that he has a serious crop loss on the farm. And his investment in A.T. & T. may have grown much greater than his diminished effect on the farm. Are we then going to set up a bureaucracy to analyze the up-and-down, in-and-out fluctuation of luck as to when I can own and when I cannot, when I am permitted to buy back and when I must sell? That thinking could mean that whenever anyone has a losing year in their business, whatever it is, as we carry this into other possibilities down the road 20 years, 100 years, he might be forced to sell.

Mr. Daschle, I think, said that in South Dakota he was concerned with the 20,000 acres in foreign ownership. I, too, have some reluctance, mentally, to foreign ownership. But I know of many farmers who each individually own many more acres than that. There was an example right here in Mr. Wolf. I don't want to see him have to sell any of his land. But I am not concerned he owns 40,000 acres and that a whole group of foreign people happen to own 20,000, in your statement.

I am concerned that they have a different tax break than our American owners. That I would like to see you do something about. That has been mentioned here, so I need not dwell on it. I would like to see the foreigners be required to pay the same gains tax on their farm sales as the American owner. It is no more than fair. I believe there are better ways of keeping ownership small than through restrictive ownership means.

I hope sincerely that your committee will continue to support the FmHA, the Farmers Home Administration, the young farmer lending bills wherever they exist. These loans will serve to place young farmers into ownership. These are the kinds of programs that will maintain the family farmers as you perceive them to be.

I endorse Mr. Daschle's remarks about Government overregulation, about the serious need for estate tax changes, and his thoughts about inflation being a major factor in our problems of ownership. These are the kinds of innovative forward-looking ways that are far superior to the restrictive legislation that takes away the rights we have been talking about here today.

Attorney General Tom Miller's suggestion of leveraging Farmers Home Administration loans as guarantees of ratios more nearly to

those of the lending institutions, as insurance companies, is an excellent one. It is highly commendable if it is studied a little bit, so it is done with care and protection. Let's pursue these avenues of progressive ideas and not crawl into a hole with restrictions.

Let's have the basic right to own private property in the hands of all people. Let everyone in this room, regardless of what they are, have the right to own farmland or a house in town or an office building, or whatever it might be.

I support Mr. Wolf's concern for conservation and good farm management. But this relates not one iota in my view to absentee ownership as this hearing was designated.

I want to see better conservation plans and controls so that we don't lose our resources.

But absentee ownership does not have an option on that. As I mentioned earlier, I know one farmer who owns and operates 11,000 irrigated acres. Again, that is a conservation matter which needs to be addressed. That is if he is depleting water, if he is polluting. But it is not an absentee ownership problem. He owns and operates that.

So I again urgently suggest, ask, plead, that if you gentlemen can find real means within Government to hold down inflation, then farmland will not continue to escalate in price. Farms will be purchased for the profits from production instead of a hedge against inflation. More farms will be for sale. Presently, few farms are for sale, because when we in our business go to farmers and ask them if they would like to sell, the very common remark is, "Why should I sell this year when I just know that it is going to be 10, 12, or 17 percent higher next year." And so they hold on.

So, again, if we can hold down inflation, help with the estate tax matters that have been referred to here by many people, that is a real help for families. And then you will have no concern about absentee ownership because that will diminish as more and more people buy their farms for the true productive quality of it and not for the long-range hedge against inflation.

I agree with the remarks—real estate is one of the finest hedges against inflation, whether it be a residence home, farm property, factory, office, or what it may be. But I strongly oppose any attempt to restrict ownership of private property away from any private citizen.

I thank you very much for the opportunity to speak, not having been previously on the agenda.

Mr. BEDELL. Thank you, Mr. Chapman.

Mr. Daschle?

Mr. DASCHLE. Thank you.

I wonder, if you are not concerned with 11,000 acres, would you be concerned if one person owned 50,000?

Mr. CHAPMAN. Well, I am aware that our people in the sandhills own 50,000 acres, and some of them have been strongly converted to productive cropland. There was a time in our history not many years ago when it was suggested because of the dwindling productive acres being taken out for various reasons, highways, et cetera, and for the tremendous need to fight hunger and famine over the world, that this country go hog-wild forward to produce, produce,

produce. And so during that period of encouragement, people went into this field.

I, myself, took up 13 quarter sections in Nebraska, near Bassett, Nebr., with some friends, all of whom also owned farmland otherwise that they either operated, had operated, or now were absentee owners, but a whole combination—10 of us. We took up 13 quarters and put it under irrigation. The Government said we must produce more. So these things happen. And later, we sold it off. But I am not concerned with the 50,000-acre owner. I personally am not.

Mr. DASCHLE. How about 500,000?

Mr. CHAPMAN. When 500,000 acres under one ownership becomes so unmanageable because that party also has to hire people—he has to hire the same kind of people that the corporation has to hire—then it is going to die on the vine after a while, no longer becomes profitable, because he cannot compete with the little operator, the small family operator we talk about, and eventually he is going to sell off, just like everybody else does.

Mr. DASCHLE. You think a 500,000-acre farm would not be competitive with a 500-acre farm?

Mr. CHAPMAN. I do not believe it to be; no, sir.

Mr. DASCHLE. What you are saying, then, is at some point, you reach an economic diminishing of returns here?

Mr. CHAPMAN. I really think you do—as I perhaps feel that you do. But I don't know where that level is. But I just believe if you let Farmer Jones buy the next-door farm, the next one, the next one, eventually he owns several thousand acres, as it becomes unmanageable, as his sons and daughters leave as they often do, and he hires other people, pretty soon he has to have union scale wages—there are all these possibilities—and he has to cut the hours; they are not going to work 15 to 18 hours as the family does. He has those things bore into his profits. He will do like Gates Rubber did.

Mr. DASCHLE. But the one thing you are overlooking is, as you get bigger, so do your tax benefits get bigger, the way our tax system is set up. Your capital gains taxes are more beneficial. Your depreciation allowances are larger. Everything as you get bigger in this country is attributed at least in part to the benefits that can be derived from our tax laws.

So, obviously, your tax laws will offset some of that economic problem that you would have in perhaps a lower productivity.

The fact of the matter is, unless we start concerning ourselves with the incredible demise of the smaller family farm, the fact is that once—let's say we are at 200,000 or 300,000. How do you suppose a younger farmer could get involved if indeed that was the norm of the time?

Let's say that by the year 2000 that really is the norm, that rather than 2,000 acres, we are talking about 20,000 acres. It seems to me we are continuing to push farther and farther away from the prospects of ownership of any young farmer.

Mr. CHAPMAN. I could not agree with you more. I think I have agreed with you. Maybe I did not enunciate very clearly. But the problem is not that we need to restrict who may own farmland. It is that we must work through the tax laws and other matters, estate tax planning, and the other tax matters that have been

addressed here, investment tax credits, all of the rest of the things that in themselves will bring the thing back to the point where it takes a smaller farmer to really be the profitable operator. You can do that with many different adjustments in the tax consequences. Give the individual a higher point of earning before he has to start paying taxes or whatever it might be. It can be through income tax; it can be through tax incentives for investment—ratios between dollar volume of purchases, and so on. And if you hold down the tax investment credit—if you held it down only \$10,000 worth of investment that could get a credit, then the big operator is not going to make any gain by investing millions of dollars.

And so I think you have really struck on the thing that you need to be addressing, and that is our whole tax structure, the whole matter of Government spending or contribution to inflation, whatever that is, and you solve those things, and I don't think you have a problem with bigness or with absentee ownership.

Mr. DASCHLE. Do you think that the fact, as projected here by the Department of Agriculture, that half the farmland will be farmed by the largest 50,000 farms and almost all the land will be operated by the largest million farms should be a factor for concern?

Mr. CHAPMAN. It is a concern. But attack it in a different way. Their projections are probably absolutely correct if you continue in the vein we are now with taxation and other Government regulation matters. If you turn that around, you win the laurels of the world if you can fight that end of the problem, instead of saying this man can own a farm and this man cannot, and I can, and he cannot.

It is the wrong approach, in my view, to restrict the basic rights that this country was based upon. The right to own private property is one of the very strong basic rights. And we need that right.

We don't need to diminish it. So attack it from other methods of encouragement through the tax problem.

Mr. DASCHLE. Would you say that simply equalizing tax benefit accessibility would provide the incentives for young farmers to compete with corporate farmers, or would you think that because corporate farmers have economic advantage that small farmers need tax advantage, tax law advantage?

Mr. CHAPMAN. I think you are getting beyond my realm. I really think it is going to take some very good economists to study that and determine where equitability is that will help us keep profitable farming in the hands of many people. And I really don't know which avenue.

Mr. DASCHLE. That seems to be an out. You are saying don't do it through regulation; do it through tax law. But then when you say, how do you do it, you say you don't know. It seems to me one of the options we have is to limit the number of the amount of nonfarm assets. If you said \$3 million, I think you would avoid just about every pitfall that you listed in your testimony—regarding widows who have a bad year in agriculture.

However, the whole question relating to the tax advantages that may need to be prescribed doesn't even deal with the regulatory aspects, and yet we still have the same kind of question before us.

Either we do it through the regulatory aspects or the tax incentives that we can write into law. But we have to know what they are.

Mr. CHAPMAN. I recognize that. I wish I had that ability to have studied that that deeply. But right now, so few farmers are selling farms because they are waiting for next year's inflation that I am really spending most of my time, that avenue of my business, to try to stay afloat. I don't mind that. We go through these cycles. We will survive. But I really do not have the background to know fully a full program of taxation that would do the job.

But I feel there are enough economists in this great country of ours and enough of them directly associated with the legislature that they have access to, that if you just turn it and say, would you help give us a tax program that would accomplish this, that it can be done in that manner.

I feel that way. And that it should not be done in destroying the bill of rights.

Mr. DASCHLE. You would not necessarily be adverse, then, to penalizing large corporate entities if it will help developing a small individual farm ownership incentive.

Mr. CHAPMAN. I really hate the word—not because you used it—the word “penalize.” Why not give an advantage or incentive to small operators to be able to get started in some way? Now, one of the great incentives we have in this country right now is the Farmers Home Administration loan plan. The problem is under its present allocations, it cannot go far enough. Presently some young farmers can get a 5½ percent loan to buy a farm with, while the absentee owner has to pay 10, 12, 15 percent.

So he has a disadvantage in buying right now, which is steering some of them away. That is just one very good economical way to help control what you are trying to control, but without mandating that this man cannot buy a farm.

And I am really concerned about the farmer-tenant. I think that is one avenue—I am terribly concerned about that. If we say no absentee ownership, none, he is out of business.

Mr. DASCHLE. Let's assume a tenant is renting land right now and the owner decides to sell it. If the farm tenant is just getting started, he has no means by which he can buy the land. Let's say he assumes he is going to buy that acre of land for \$1,000 and the guy who has already 3,000 acres of land can afford to say, “I will buy it for \$1,100,” and ultimately outbids the guy to the point where he then accumulates another section or quarter of land.

The fact of the matter is when you start having tenants bidding against larger corporate entities, or large farmers of any kind, there is not a parity there that can be established—unless we either regulate it or provide the tax incentives that we are talking about.

Mr. CHAPMAN. We could do—probably already have done—we could do as they have done in Mexico or plan to do, where they just divide up all the land among so many people, let everybody have an equal amount of land. But that, again, is taking away from some people. And I don't believe in taking away. I feel very strongly.

I appreciate the chance to testify before you.

Mr. BEDELL. Mr. Chapman, I have a few questions.

First of all, I really appreciate your interest. I appreciate your being here. I appreciate the points you have raised. You are going to be shocked, but I think I agree with most all of your points.

If I understand you correctly, you do believe that the individual family-operated farm is preferable to the outside ownership where somebody simply serves on that farm.

Mr. CHAPMAN. I believe generally he will be more efficient than the large outside-owned farm. But there are some very, very good efficient farmer-tenants who work for absentee owners. So he is just as efficient in many cases.

Mr. BEDELL. Do you agree that generally the incentive is greater if you own your business, and if you reap all of the benefits that accrue from a successful operation?

Mr. CHAPMAN. Certainly I do.

Mr. BEDELL. And that probably there is a tendency for you to be more concerned about the property on which you operate if you own it and operate it than if you do not operate it—may not even see the property?

Mr. CHAPMAN. Generally that probably is true. But I can tell you in a few minutes the farms owned by the people on the place that look terrible; they are junk heaps, have not been farmed. And right next door is a tenant-farmer who has done very, very well. So price is not limited to an owner.

Mr. BEDELL. No; but you tend to be more concerned with the things you are living on and know.

Mr. CHAPMAN. Yes.

Mr. BEDELL. I think Mr. Wolf was making that point; that he felt in terms of conservation, that it is somewhat more likely to be better, with exceptions.

Mr. CHAPMAN. Yes; I didn't mean to be derogatory to any of those remarks.

Mr. BEDELL. I guess where the problem comes with your testimony is that it appears to me you have taken the belief that either we are here to try to say that we are going to restrict people, ownership of farmland, or that there are people in Washington trying to do that. Certainly I am not here to say that people cannot own farmland. And if there are people in Washington doing that, I am not aware of it. There may be. That certainly is not the purpose of these hearings.

The purpose of the hearings is to try to get information, to which, frankly, I think you have contributed a great deal. I agree what we ought to look at is particularly our tax law and those things that would appear to me to give incentive and benefits for outside ownership that tend to be somewhat less for the farm operator. And you have hit one of them very well. And that is inflation.

Outside owners benefit more from inflation generally than your family farmers, because outside owners tend to be in high tax brackets, and therefore a capital gains tax advantage is of greater advantage to an outside owner owning farmland than it is to the family farmer that probably is not even thinking about ever taking advantage of the capital gains benefits therein and other benefits as well. But, if I understood you correctly, you would favor looking

at those tax laws so that there would not be greater advantages for outside ownership than there would for ownership by the individual family farmer.

Mr. CHAPMAN. Very true. Mr. Bedell, I did not mean in any part of my remarks to be derogatory of your committee. I really commend you.

Mr. BEDELL. I didn't question that. I thought you were making some assumptions—

Mr. CHAPMAN. No; I really didn't mean to. Most of my remarks were prepared pretty hastily here. But I really am pleased and excited that we have a kind of a Government that will let us let you bring these things for public hearing. And I really mean that.

I recognize this as a hearing, not as some attempt by anybody to jam something down our throats. So I appreciate that. I know that you take all testimony; it will all be considered. And that is what it is about. It is a wonderful way of Government. And I don't want to lose that right, either. So I appreciate it.

Mr. BEDELL. I mean, with all sincerity, you have contributed a great deal to our hearings. I am glad we had the opportunity to ask questions a little bit, so we would understand exactly what your feelings are. I personally don't think they are particularly different from what the members of the committee have.

Mr. CHAPMAN. Thank you.

Mr. BEDELL. We will adjourn. We plan to return at 1:30.

[Whereupon, at 12:45 p.m., the subcommittee adjourned, to reconvene at 1:30 p.m.]

AFTERNOON SESSION

Mr. BEDELL. The subcommittee will come to order.

We start our hearings this afternoon with three presidents. We have Pete Croghan, the Iowa Farmers Union president; Ben Radcliffe, the South Dakota Farmers Union president; and Neil Oxtan, the Nebraska Farmers Union president.

We appreciate having all three of you here. Your entire testimony will be entered in the record. If you wish to summarize in any cases, I can tell you it would be welcome.

I will leave it to you as to who is first.

Mr. DASCHLE. Before we start, I would also like to share in the welcome of all three presidents. I cannot think of three finer friends of agriculture than we have before us this afternoon. Not only friends, but eloquent spokesmen and persuasive witnesses.

Ben Radcliffe happens to be a close personal friend. But I have seen him in testimony before committees many times. He has always done a very remarkable job. I want to share in the welcome of all three of you this afternoon.

Mr. BEDELL. Thank you, Mr. Daschle.

STATEMENT OF BEN RADCLIFFE, PRESIDENT, SOUTH DAKOTA FARMERS UNION, HURON, S. DAK.

Mr. RADCLIFFE. I am Ben Radcliffe. My wife and I own a farm near Redfield, S. Dak., a family-size farm that we operated for some 20 years before I took the full-time position of being the president of the South Dakota Farmers Union.

I am also the chairman of the National Farmers Union executive committee, a nine-man executive committee. Today my statement is in behalf of the National Farmers Union.

I want to express our appreciation to all three of you Congressmen for taking your time to be out here to participate in this very important hearing.

Secretary Bergland's national dialog on the future structure of U.S. agriculture was productive and worthwhile, but it was only a dialog.

We commend you for bringing the discussion into legislative focus and examining what needs to be done legislatively on regulations on farmland ownership and control, on farm prices and income, taxes, credit and other policies to assure the continuation of a predominantly family farm structure of land ownership and farm operation.

It is understandable that many people were shocked by the projections in USDA's report on projections to the year 2000.

It indicated that there will be fewer and fewer farms, that the largest 50,000 farms will farm half the land and account for two-thirds of the output, that the number of young farmers will greatly decline, and that capital requirements will double.

These projections, of course, were not recommendations. They were merely forecasts of what will happen if we do not take action.

As we approach the adoption of comprehensive farm legislation in 1981, we must examine whether current and future farm policies serve the family farm objective.

Americans have a choice in farm policy and should not have to tolerate food insecurity, nor should the farming industry be consigned to a chronically weak economic position. A new policy must be an improvement over the risk-oriented policies of the past 10 years.

Inflation, tight money, high interest rates, energy shortages and high prices and unemployment and recessionary conditions all are problems for farmers. But most of our problems would be far less serious if farm prices and income were maintained at satisfactory levels.

It is, after all, low farm prices which bar beginners from farming, which create pressures for farms to get constantly larger, which cause separation of farm ownership and operation and which prevent our farmers from bidding against outsiders for available land.

Congress has just received the second report under the Agricultural Foreign Investment Disclosure Act. It indicates that the acreage under alien control has almost doubled.

Although some try to minimize the results, more U.S. farmland has been acquired by foreign investors in the past 5 years than in the preceding 50. Corporations own 81 percent of the acreage held by foreigners. About 20 percent of the foreign investments have been made through tax havens for the purpose of concealment and tax avoidance.

As members of the committee which initiated the disclosure law in 1978, we want to warn you of the recommendations made in the USDA report to repeal sections 6 and 7 of the law, the public information and public access provisions.

These are the heart of the disclosure system. Without public access to the facts, the information will just deteriorate into another mass of statistics. You will need to be vigilant.

Foreign investors have been putting \$1 billion a year into U.S. farmland, but this is small compared to the effects if pension funds are to be invested in American farmland.

Currently pension funds have \$600 billion in assets which during the 1970's earned a return of only 4.3 percent. By comparison, investments in farmland earned 5.5 percent after inflation. I think it is important we note the inflationary factor here.

Farm real estate assets at the beginning of this year totaled \$599 billion. By the year 1990, pension fund assets will total \$1.5 trillion and farm assets \$1.1 trillion.

Pension fund money will be attracted into farmland ownership, not because farming is stable and profitable, but because of the inflation in land values.

The return on farm equities during the 1970's ranged between 2.6 percent and 10 percent and averaged only 4.8 percent while returns in manufacturing industries averaged 21 percent.

The Employee Retirement Security Act of 1974 directs pension fund managers to avoid severe risks. It requires them to diversify investments and mandates them to use the care, skill and diligence of a prudent man.

This would seem to discourage the investment of pension assets in farming, but the perception of the spectacular appreciation in farmland values will nevertheless cause investors to be attracted to the "green pastures" in agriculture.

In effect, schemes like the Ag-Land Trust in 1977 and the American Agricultural Investment Management Co., today depend for their success upon continued inflation.

We find the new plan no more desirable than the 1977 plan. We do not need a new generation of sharecroppers on the land. It is not desirable to separate land ownership and farming. We don't need the outside capital.

State legislatures, of course, could legislate on this problem just as they have done in the Midwest on corporate and alien ownership. Congress could amend the pension statutes to bar future investment in farmland. That would be consistent with the "prudent management" sections of the law.

Mr. Chairman, in addition to this oral statement, I am submitting a much longer statement for the record, in which we document some of the statistics that we use here, and furnish additional information.

Thank you.

[The prepared statement of Mr. Radcliffe may be found at the conclusion of the hearing.]

Mr. BEDELL. Thank you very much, Mr. Radcliffe.
Who wants to be next?

**STATEMENT OF NEIL OXTON, PRESIDENT, NEBRASKA
FARMERS UNION, LINCOLN, NEBR.**

Mr. OXTON. Thank you, Mr. Chairman.

I am Neil Oxtan, president of the Farmers Union of Nebraska.

My testimony today is sort of general and has been touched on by others. But I think for the purpose of emphasis, I would like to say that new farmers face high land values, high interest rates and big capital investment costs, not to mention a need to work hard long hours, day after day, occasionally for continuous weeks.

For many prospective farmers and ranchers, recruitment by agribusiness companies for well-paid jobs becomes more attractive and require only a pencil and one's time.

Even at special FmHA loan rates, a debt is a debt and must be repaid. Furthermore, how can the debt-burdened young farmer, raising a family, compete with the well-established individual who has been farming for 20 to 30 years?

Farm efficiency and equity are related. Agriculture has grown up with America. Farmers are doing far better than other industries when it comes to efficiency. It has left a dangerous mark on rural America, however, one that sooner or later our country will have to face up to.

If we allow the present trends to continue and just drift along without making any definitive changes or corrections, quite soon we will wake up to a rural America, in many places, divided into just a few large farms, all doing well, thank you.

Whether the welfare of our country is best served by following the present trend is the question we wish to raise here today.

Who will be the lords of all our land? Presently the law of survival of the fittest will determine that answer. Sort of an agribusiness monopoly game, so to speak.

The free enterprise system is frequently held up as near perfect. It is not and needs modification now and then, here and there, to better serve the best interests of America.

Planning a farm strategy—do we really plan? We look back, consider the averages and extend the trends. That is about all.

Our machine manufacturers arbitrarily scrap smaller models and continue to offer larger, more efficient tractors and machinery. The agribusiness people who are concerned for the farmer's welfare plainly see what is developing but wring their hands in despair when they are asked to consider, "What do we do?"

They see and know something is wrong with our present material-oriented system. They hope it will hold out for a few more years. Perhaps only to see themselves through to retirement. But what of the future of rural America? We see fewer and fewer people involved in and enjoying farming and ranching, every year.

Plainly it comes down to financial expansion. Those who scrimped and saved over the years as they grew older farming now find themselves owning a very large estate, larger than they even dared imagine themselves to be worth just a few years ago.

On the other hand, we see expansion-minded farmers and family farm corporations, beat the cost of bank borrowing through whatever means available. They continue to use tax advantages as well, to live and grow in size. Soon they will be pursuing another lease arrangement or something similar to use to their advantage.

We cannot fault the knowledgeable good farm operator who knows and recognizes the many opportunities available to him. The fact is, he is only taking advantage of the system. He is converting it to his own benefit through good farm management.

Unfortunately, we continue to see far too many farmers today who cannot or will not take the time to think, to take time to find a cheaper method, or to calculate after tax costs, study a new approach to their work or evaluate a dozen other choices that might be available to them. Not to be redundant, but capital is often the greatest deterrent to using a better method or approach.

Unlike many enterprises in America, farmers are innovators and like to take risks. Failures are accepted as part of the game. Sometimes those who farm lose, oftentimes three or four times over. Those who seek out better ideas and advantages and act on them tend to lose less often, however.

Whenever the system awards all by the same method, the reasoning becomes obvious as to how we are building huge farm and ranch holdings in our rural Midwest today. And they aren't great secrets.

Nonetheless, many farmers are loath to take the greater risks involved today and they leave the business of farming. Enter again the innovative operator.

Mr. Chairman, it reminds me so much of an old dog we used to have on our farm. He got much of his exercise chasing his own tail. This is not to say the process is not rewarding to some individuals, but to indicate the vicious circle we seem to have created for ourselves.

Anyway, what works for one area may not work in another part of rural America. In our attempt at correction, we must not rely on any one device. We must be prepared for good ideas that may flop.

We, in Farmers Union, originated the call to put an end to boom or bust farm policies. Perhaps it is the crop season of 1980. However, I am reminded now of a new cry coming out of this farm region, "bust to dust."

I close with an appeal for those who went into debt last spring coupled with record high interest rates, who suffered through a record hot, dry summer and who are busy this very day attempting to save their milo and corn from ravaging insects.

A great number of these people will not farm another year and the cycle I spoke about earlier will be speeded up, unless we dare to get our act together soon.

Thank you.

Mr. BEDELL. Thank you, Mr. Oxton.

Mr. Croghan?

STATEMENT OF PETER T. CROGHAN, PRESIDENT, IOWA FARMERS UNION, WOODBINE, IOWA

Mr. CROGHAN. I am Pete Croghan, and I am president of the Iowa Farmers Union.

We appreciate the opportunity to appear before you today to express our concerns on some of the current trends in land ownership in Iowa and in the Nation.

Congressman Bedell and other members of the subcommittee, you are to be commended for all of the positive actions that you have taken on behalf of family agriculture. At a time in history when the family farm has become just rhetoric for most Government decisionmakers, this subcommittee has been fearless in your support of this important institution.

You have contributed greatly to the dialog on farm structure and have matched your analyses with actions that have translated into legislation.

Our testimony will be structured according to the order of the points that were raised in the hearing notice. Iowa Farmers Union is very concerned about land ownership, and we have been involved in many issues related to it.

The projections about fewer and larger farms contained in the year 2000 reports are probably accurate if present policies are followed. A phenomenal change in the agricultural system is already taking place, and it is bound to intensify if nothing additional is done.

During the past 3 years the Iowa Farmers Union and other members of the family farm coalition in Iowa have been doing an intensive study of land trends in local ASCS offices and in county courthouses.

We have shared some of those results with this subcommittee at Ames several months ago. At that time, we were stressing the courthouse search because we were attempting to get family farm legislation passed at the State level.

In recent months we have shifted the focus of the study from the courthouse to the ASCS offices and we are very disturbed with the preliminary results. We will make the results available to the subcommittee on a county-by-county basis when final tabulations are made.

In this testimony today we will share some of the general findings. In Calhoun County, just two counties east of this one, we have found that over 76 percent of the acreage being farmed is owned by people who no longer operate the farm. Although this figure could contain some degree, it is still a serious omen as to the future of family farming.

It should be pointed out that nearly 77 percent of the acreage that is owned by nonoperators is still owned by Calhoun County residents, but as time goes on the number of acres owned outside the county and outside the State will increase as these owners die and estates are settled.

You will notice that we refer to this development as nonowner operatorship. We feel that this factor is very important in determining future dynamics in the land market. There are two scenarios that could be constructed on the basis of the high amount of nonoperatorship.

The first is that the land will be bought up by an existing established operator. This is primarily what has been happening at the present time. But up to the present time, this has occurred in an orderly manner at a relatively slow rate.

The other possibility is that the land will be bought by an investor-absentee-land speculator. The land will be rented to existing operators and it will probably be managed by a land management company.

A land management company in Omaha manages over 5,000 acres and 23 farms in just two western Iowa counties. This firm charges 10 percent on the gross income, and it does little, if anything, to help renters who are mostly young farmers.

Our fieldman lost the farm he was renting because the absentee landlord thought he wasn't making enough money for him. At today's commodity prices, it doesn't take a genius to recognize that there won't be much left when 10 percent is taken off the gross.

In every county we have surveyed so far nonoperators own more land than operators, but the figure is much lower than Calhoun County in many.

It seems that the investor involvement in land ownership will increase as land holdings become larger. Even existing, well-established farmers will ultimately not be able to put together the massive amounts of capital to purchase larger acreages.

What our land study is clearly showing is that there will be a generational change in landownership coming because of the high amount of nonoperatorship and the increasing age of these owners, but we do not see the trend toward increasing size of farms and decreasing numbers of farmers as being desirable or inevitable. Appropriate actions must be taken to slow and reverse this trend.

History has clearly demonstrated that the collapse of food systems has been an important factor in the fall of great nations. Land reform has been a continuing part of government processes in every nation.

It is either accomplished by an enlightened government intervention as in the northern European nations, or it is accomplished by violence, as in several revolutions.

This leads us to the second concern listed in the hearing notice—entry into agriculture by young farmers. It is easy for us to decry the present trends in land ownership, including diatribes on non-farm investors, but if we don't enact programs to get young people back into farming, the system will go to the nonfarm investors by default.

This subcommittee is aware of the massive capital investment needed to start farming today. Your commentary in the hearing notice and the materials included clearly state the facts relating to this issue.

Because young and beginning farmers have low equity, they are regarded as high risk by existing lending institutions, including most of the farm credit institutions.

We strongly support a measure passed in the last session of the legislature that provided loans to young farmers at reduced interest rates. The program will be funded through bonds, and it will provide a modest beginning for assistance to young and beginning farmers.

But the program barely touches the surface in terms of actual need. This program needs to be expanded and the Federal Government must do more in this area. At the Federal level, legislation has been introduced many times to assist young farmers, but it has always been stalled in the Congress. The time has come for action on this important legislation.

The bottom line for young farmers, however, is the income they can make from farming. Even if young operators can scratch up the capital to start farming, they can't stay in business when grain and livestock prices continue the roller coaster pattern. Ultimately, young farmers' fates may be tied directly to a strong and consistent farm program.

Because the current Farm Act expires this year, it is vitally important to start careful consideration on the 1981 Farm Act. The Farmers Union's position on this legislation is already well-documented, but it is important to point out that the act must contain strong price support positions, adequate supply management provisions and be tied to a cost-price index. Of course, we prefer parity.

The act should also be for more than 1 year. Farmers just can't stand more instability in their operations. No businessman can survive in the volatile climate that agriculture has faced.

The same people who argue that we have to get the Government out of agriculture are the same people who are cutting off their noses to spite their faces.

In a democratic government, the Government will be involved in the food system. We ask that this involvement be limited by statute, and that it be at a level that is just necessary to keep markets stable.

The Farmers Union's position on corporate and nonfarm investor involvement in agriculture has been clear and consistent. We are flatly opposed to nonfarm investor involvement because of the impact on family farmers.

Iowa has a relatively good State law to keep large corporations out of farming. However, many States have no such laws, and a Federal law is needed to limit involvement by corporations, trusts, limited partnerships, and other financial structures that are designed to weaken the family farming system.

After passage of anticorporation farming laws in Iowa and Minnesota, it has come to our attention that many joint ventures are being set up to get around the State laws. We are presently studying these structures and are examining legislative proposals to deal with this new proliferation of outside investors.

I have already addressed some of the measures that could be taken by the Federal Government to slow down the trend to larger and fewer farms. It seems that the Federal Government should provide the lead on issues that are logically in their jurisdiction. This includes credit, taxation policy, farm programs antitrust activity, and others.

Because the police power on corporate structure and land issues rests with the States, there would seem to be the logical areas where States can take the lead. Of course, some areas of concern should be dealt with by both the State and National Government.

There is no question that the USDA, the Census Bureau, and other agencies could do a better job of collecting and disseminating data. The reason that the Iowa Farm Coalition was forced to do our study is because of the poor data base on landownership.

There is no reason that the local ASCS offices can't program landownership variables into their computer programs so that landownership data can be retrieved. This data would be more accurate and more accessible at the local level than at the national level. USDA and the Census Bureau could coordinate and evaluate this information and disseminate it widely among the various decisionmaking bodies.

Landownership is of public record and Government agencies should not be allowed to withhold this information in the name of

privacy. Full disclosure requirements should be provided by statute to insure access by the public to landownership information.

There is no question that tax policy has played a role in the expansion of farm size. I don't have the time here to give a comprehensive analysis, but I will comment briefly on this issue.

Our delegates instructed the Iowa Farmers Union to appoint a committee to study the taxation issue at our convention that just concluded. We intend to examine the effects of investment tax credits, exemptions, and other aspects of taxation on family farmers. Some tax policies that may have been designed to help farmers may be actually hurting them.

Equally important to elimination of loopholes is the kind of tax incentives that could be used to encourage transfer of land to future generations. If tax policy can be used to encourage the present trends, it can be redesigned to encourage the family farming system. Tax breaks to retiring farmers who sell on contract to young farmers could be an excellent way to encourage such transactions.

Even though many retiring farmers sell to the highest bidder, who may be an investor, most farmers are still concerned about the family farm system and are willing to help if they can afford to do so.

In Minnesota, a long waiting list exists because of the number of retiring farmers who are selling to beginning ones through the State's loan program. State officials there have found that retiring farmers will sell to younger ones when they have some assurance they will be paid if there is default and when they are given a modest income tax break. The Minnesota Family Farm Security Act is working and it shows that good policy can encourage altruism.

With reference to the influence of other Government policies on the trend toward fewer and larger farms, I have only a few comments. It is popular to blame Government farm programs for encouraging the trend to bigness. I feel that this is false because it is the larger farmers who can survive periods of low prices better.

Young and struggling farmers must rely on the income from their grain and livestock. They don't have the luxury of borrowing on land that is paid for at premium interest rates.

Established farmers can spread debt over all of their land. Others can't, and they must have a return on their products to maintain cash flow. Farm programs must encourage higher commodity prices, not lower ones.

Another area that always receives a lot of attention is regulation. Although the Iowa Farmers Union is not opposed to sensible regulations that protect farmers and consumers, care must be taken so that regulation is not used as an economic weapon to get rid of family farmers. Many small packers and local butchers were forced out of business by the Meat Inspection Act. The goals of the act could have been accomplished without destroying competition if economic programs had accompanied the regulations, but because nothing was done to keep small businessmen in business, there is now growing concentration in the packing industry.

I must reiterate that it is the tax policy in the country that has contributed most to the bigness syndrome. Because farm income

has been inadequate, farmers have been forced to capitalize their tax breaks. Of course, big farmers can do a better job of capitalizing because they have more income to reduce.

Our country drastically needs a sensible demographic policy. Farmers have been forced into the cities by the millions since the beginning of the century. It is ironic that people are now moving back to some rural communities, but this migration is either to the suburbs or to bedroom towns nearby. This immigration is nearly as harmful as the outmigration that was taking place. It is the wrong kind of population distribution.

The middlemen that operate between farmers and consumers have changed drastically in character. It used to be the butcher, the baker, and the candle stick maker. Now, it is the packer, the sacker, and energy backer. The growing oligopolistic character of the middle sector certainly affects farmers. Many farming enterprises, especially the broiler industry and the truck farming industry, are fully vertically integrated with farmers serving as the hired hands.

Further vertical integration by food companies, increasing mergers and the growing multinational character of the industry must be checked. It is costing consumers billions more dollars a year, and it has moved more of the consumer's dollar to the transportation, processing, and retailing portions of the food system. Restoring competition to the middle sector of the food economy would allow farmers to have more of the consumer's dollar, and it would encourage more competition among the purchasers of farm products.

Farmers are in an unique position in the U.S. economy. When they sell they ask a handful of oligopsomies, what will you give me? When they buy, they ask a handful of oligopolies, what do I owe you? Antitrust legislation would be beneficial to farmers, and it would lower the inflation rate because monopoly costs all Americans billions of dollars each year.

There are many other concerns that I could talk about today, but I have tried to cover the areas to the best of my ability that were outlined in the hearing notice.

Again, I would like to thank the subcommittee for allowing me to testify. Please keep up your hard-hitting efforts on behalf of the family farm in Iowa and in the Nation.

Are there any questions?

Mr. BEDELL. Thank you very much.

Mr. DASCHLE?

Mr. DASCHLE. I want to thank all three of you for excellent presentations this afternoon.

For the record, I would be interested if one of you could discuss briefly what the Minnesota Family Farm Security Act does. We have heard this morning from the attorney general, Tom Miller, describing what new innovation they found in their tax exempt bond program.

But I find the Minnesota program quite an intriguing one as well. I think for the record it might be helpful to discuss this for just a minute.

Could any one of the three of you presidents discuss that briefly?

Mr. RADCLIFFE. I am not sure I have all the details of the program. I might say that we in South Dakota are also very interested in the program discussed here this morning, which would be a program financed from tax exempt revenue bonds at the State level. I see that as the most promising way of developing a credit program for beginning farmers.

The Minnesota program is strictly a State program, as I understand it. It doesn't rely on FmHA as any guarantor. As I understand, it is kind of a headstart program, where money is advanced from the State treasury at a reduced interest rate, but that interest rate must be picked up later on, I think, after 15 years into the contract.

So in effect there is no true subsidy to the beginning farmer, but only a delay in the total cost of his payments. I call it a headstart program. You give the young farmer a head start. Later on, after 15 years, when he is established, he can then go back and pick up the interest subsidy that was granted to him earlier in his contract.

I think that is a good program, but as I said earlier, I believe the one we are exploring with State tax exempt revenue bonds has much more promise.

Most States have had some kind of a housing authority program that has provided interest rate advantages to homeowners who meet a certain guideline. Industry for years has used city tax exempt bonds and other bonds.

I think it is overdue. The time has come when we ought to make this opportunity available to new farm owners. I am excited about getting that program developed.

Mr. BEDELL. There is another part to the Minnesota plan; that is, a farmer who sells his farm to beginning farmers does not have to pay income tax on the interest that he gets on the sale—the interest payments that are made, which is also encouragement there for a farmer to sell to beginning farmers, and then tends not quite so much to cause an escalation in farmland prices.

Mr. DASCHLE. I would like to pursue the question of foreign ownership problem a little bit and ask whether or not you would advocate some restrictions with regard to foreign ownership as it would be represented in tax law.

In other words, if we don't have a flat out ban—which I think might be a dubious action in that it would provide for retribution in other countries—what would you say about providing a disincentive in foreign ownership by providing some kind of a tax levy on foreign ownership, on land owned by foreign investors? What is your feeling about that?

Mr. CROGHAN. My opinion is very blunt. I would outlaw it.

Mr. DASCHLE. You would outlaw foreign ownership?

Mr. CROGHAN. I would. I think the food supply in this country should be kept in the hands of the people of this country.

Mr. DASCHLE. Would you then pass a subsequent law outlawing U.S. ownership of foreign land?

Mr. CROGHAN. Yes, sir. If I lived in a foreign country, there wouldn't be anybody coming in over there.

Mr. DASCHLE. Ben, how do you feel? It is a complicated question. It is not one easily answered. But the figures you raise in your testimony here that indicate we have substantially increased the

amount of foreign ownership of land is really quite a fact that I think we are going to have to contend with in the next farm bill.

I would be interested in knowing just how we can provide disincentives for foreign ownership.

Mr. OXTON. Well, I might make one rapid analysis. I believe what we could do for a start is at least tax the foreigners for their investment here in farmland to the same degree that we are taxing our own farmers. That would be one start.

Then, too, I am sure that we have to recognize that the United States has a lot of money invested overseas, and likewise many firms or overseas people with capital are over here investing in private industry.

So, we have to be realistic, I think, and see that if they are attracted to farmland, that they perhaps be allowed to do so. But I do feel very strongly they ought to face at least the tax problems that our American farmers face. That means picking up some of the incidental taxations that cost our farmers in sales and income tax, State taxes, and that type of thing as well, property taxes.

Mr. RADCLIFFE. Congressman, as you know several States have passed State laws prohibiting or restricting the ownership of agricultural land by nonresident aliens, the State of South Dakota being one of them.

In 1979 our legislature passed a law restricting nonresident aliens to ownership of no more than 160 acres of agricultural land. That is one way to go.

I agree totally with President Oxton that we need to get serious about adjusting our tax laws as they relate to specific advantages that the nonfarm entities have.

In tax shelters, in investment tax credits, in capital gains, in all of these areas the corporation or the individual who is in a higher income tax bracket comes off with what can be an overwhelming advantage over the average farmer in this country. Whether this is a foreign investment or a domestic investment, the advantage is still there.

I think if we eliminated many of these tax advantages that over the years we have given to these people, we would see the problem begin to diminish. But as a final cure, I think we ought to take a hard look at a legislative limit to the amount of agricultural land that nonresident aliens should be allowed to own.

Mr. DASCHLE. Well, I want to thank you all again for very good testimony.

Mr. Chairman, I have no other questions.

Mr. BEDELL. Thank you.

I notice you said something about the proposal by the Department of Agriculture, that the reporting requirements that we wrote into law in regard to foreign investment in farmland should be eliminated.

Do you know why they recommended that those be eliminated?

Mr. RADCLIFFE. Congressman Bedell, there are several things that the Department of Agriculture does and recommends that I don't know the reason for. I really don't know why USDA is recommending the relaxing or elimination of some of the specifics of this proposal that I think was very worthwhile, seeking out ownership of farmland by nonresident aliens.

I can only say that we should be very vigilant in reviewing the requests of the Department of Agriculture to reduce in any way the intense scrutiny that has been placed on this problem.

Mr. BEDELL. You also indicate concern over the possible pension fund movement into this area because they have such tremendous funds compared to the total value of farmland.

Do you see any evidence of that other than this American Agriculture Investment Management effort to try to do that? Have you seen any particular movement?

Mr. RADCLIFFE. I guess there is no evidence, no specific instances that have come to the surface. I am sure that many pension fund investors are looking at this potential.

I think it is significant, as our paper points out, that by 1990 the total assets in pension funds will be more than the total value of all the farmland in our country. So, if they were really turned loose, in effect they could buy up all the farmland and still have money left to invest.

I think that this is very significant, that we note these figures. The law requires now that investments be made in, I think the term is, a businesslike manner. I believe you could make a case for the fact that farm income is so volatile that this might not be the most secure kind of an investment for a long-term pension plan.

Mr. BEDELL. You are talking about whether it is legal or not for them to make such an investment.

Mr. RADCLIFFE. Yes.

Mr. BEDELL. Is anybody challenging that, do you know? Obviously American Agricultural Investment Management must not think it is illegal or they wouldn't be out trying to get them to make such investments.

Mr. RADCLIFFE. No, apparently it is not illegal. I think we have to take a look at whether it is prudent and a good investment.

Mr. BEDELL. Doesn't the law require them to make prudent investments?

Mr. RADCLIFFE. That is right. I think it is a technical question of whether this is a prudent investment or not. I think Congress could make that decision.

Mr. BEDELL. If it is determined it is not prudent, it is illegal for them to do it, isn't that correct?

Mr. RADCLIFFE. Right.

Mr. BEDELL. I guess I have no further questions.

Congressman Daschle has to catch a plane back to Washington. We certainly appreciate his having been here.

Our next witness is Cecil Rusley, area chairman for Communicating for Agriculture, Sioux City.

STATEMENT OF CECIL RUSLEY, AREA CHAIRMAN, COMMUNICATING FOR AGRICULTURE, SIOUX CITY, IOWA

Mr. RUSLEY. Congressman Bedell and members of the subcommittee, I wish to express to the outset Communicating for Agriculture's appreciation for the opportunity to discuss the serious problem of nonagricultural corporate acquisition of agricultural land in Iowa and in the Nation.

I am Cecil Rusley, membership director for CA in Iowa. I am also a professional life and health insurance consultant. I work daily

with farmers and businessmen in agriculture throughout northwest Iowa. I fully realize the importance of the family farm and the family agribusiness in a health economic atmosphere and in our business community.

We realize that family farmers are efficient economic units in the food production system, and they are also very good for rural communities. Unfortunate consequence of the loss of farmers from the land is the disappearance of small businesses. Estimates vary, but the latest is that a small town businessman is lost for every five farmers who leave the countryside. Many independent businessmen in smaller towns are becoming hired hands of chain stores.

Organizations such as American Agricultural Investment Management Co.—otherwise known as AAIM—from the Chicago area, will make hired hands out of our family farmers if we do not put a stop to corporate attempts to gobble up family farms.

CA's action in alerting Congress to the activities of AAIM began shortly after learning of its formation in the April issue of Pension and Investments. It was apparent from the outset that AAIM is another organization with the objective of purchasing farmland for nonfarm operators and using the expertise of American farmers to operate the farms, but with the farmers themselves being only tenants or hired hands.

Is this the kind of structure we want in rural America?

We need not elaborate on what type of rural America we will have if this is allowed to happen. Taylor Caldwell's book, "The Devil's Advocate," would best describe it.

What CA feels that needs to be brought out and understood is why and how an organization like AAIM would operate.

First, AAIM claims that it will not own the farmland, but merely serve as investment manager for individual investors, pension funds, and others interested in purchasing farmland. They will locate farms to be purchased and negotiate with existing farm management firms for its investors. According to Pensions and Investments, the farms will be purchased in five regions: The Delta; the Southwest; Texas, Colorado, and California; the Northwest; and the Midwest, including Iowa.

Each individual investor or pension fund will invest a minimum of \$5 million to \$10 million, to directly purchase five to seven farms. Farm management firms will have hired hands to operate the farms or rent them out. If a farmer rents, he will provide his own equipment and labor and will pay a rent of one half of his output. In other words, if you do a good job of farming, you pay more rent, and if you do a poor job you pay less rent.

CA has not seen a schedule of fees for AAIM, but Northern Trust Co. of Chicago, one of the largest trust departments in the country, has the following fee schedule for their trust department customers:

SCHEDULE OF FEES

ACQUISITION OF LAND

For special consideration services and land acquisition a fee ranging from 5 percent to 2 percent of the acquisition price will be assessed depending upon the size of the acquisition.

FARM MANAGEMENT FEES FOR TENANT OPERATED FARMS

Grain farms: 8 percent of owner's share of gross income.

Livestock and Dairy: 10 percent of owner's share of adjusted gross income.

FEES FOR DIRECT MANAGED FARMS

Eight percent of adjusted gross income.

Let's look at the numbers for a hypothetical 240-acre farm selling for \$2,500 an acre, here in Iowa:

Acquisition costs: $\$600,000 \times 5\% = \$30,000$.

Farm management: Let's assume it is all in corn with a yield of 150 bushels an acre— $240 \times 150 = 36,000$ bushels of corn at $\$2.75$ a bushel = $\$99,000$.

The farm manager takes 8 percent of $\$99,000$, or $\$7,920$, plus cost of fuel, seed fertilizer, chemicals, equipment and labor, taxes—no homestead. This all must come out of the balance of $\$91,000$.

We that know farming know that there isn't a big enough margin to pay someone 8 percent off the top and still come out. Why does AAIM want to promote this plan and how does it attract investors into an industry that has a history of low earnings?

The answer to the first question is obvious: AAIM will make big money off both the investors and farm managers. But how do they entice the investors?

Investment firms of this type will provide obvious advantages to the individuals who contribute to participating pension funds. The purchase of farmland offers the pension funds an opportunity to broaden their portfolios and reduce risk, and it offers individuals the opportunity to invest in an asset whose real value—after adjusting for inflation—has increased at an average annual rate of 5.5 percent over the last 10 years.

Income taxes on both the contributions into pension funds and the returns that they earn are postponed until disbursement of the funds. These tax advantages will provide those participating in the pension fund with an advantage over family farmers who do not receive similar tax breaks when they invest in farmland to enlarge their farms.

AAIM knows that the profit on farmland is not in farming the land, but rather it is in selling the land. At the end of 1979, there was in excess of $\$370$ billion in pension funds. With tax advantages as they are, the pension funds could pay off the debt of American agriculture, which now is $\$82$ billion, and still have more than 75 percent of these funds left.

Something has to be done now.

CA encourages the type of legislation that has passed in Iowa in recent years, to help protect the family farm. CA is proud of the role it played in the Iowa Family Farm Development Act, that was signed into law this year. This act will help to continue the family farm and help young farmers to purchase Iowa farmland.

CA feels that Federal legislation must be enacted to oppress nonagriculture corporations, pension funds and farmland speculation. The Family Farm Antitrust Act needs to be pursued in earnest if the rural American future is to continue to be a family situation as it has been since our forefathers began this Nation.

CA wishes to thank Congressman Bedell and his colleagues on the House Agriculture Committee's Subcommittee on Family Farms, Rural Development and Special Studies, for bringing this

matter to the attention of the Comptroller General and the General Accounting Office. We ask that this gets in the record.

Thank you.

Mr. BEDELL. Thank you, Mr. Rusley.

You hit upon something that has been discussed just briefly, I guess; that is, the possible involvement of pension funds into the purchase of farmland. It was indicated by the previous panel that it is not at all certain whether it is even legal for them to do so.

Do you know if they have started yet to do this?

Mr. RUSLEY. No, I do not. It is just something like was in the investors magazine, Pension and Investments.

Mr. BEDELL. I tried to contact the gentleman who is apparently head of that firm, and he was out of town, Mr. Colter.

Mr. RUSLEY. Bill Colter, I think it is.

Mr. BEDELL. He was out of town. He did call me back. I was over voting. We missed connections. I don't know whether he would be able to come or not.

Mr. RUSLEY. It would give a great tax advantage on something like that, individuals signing up for that, investing money, over what the farmer can do.

Mr. BEDELL. The whole problem was brought up by one of the previous witnesses. The problem is the escalation in farmland values. With that escalation, it makes farmland investment quite an attractive proposition for others that are looking for capital gains benefits rather than the family farm, who is simply there generally, at least in my belief, trying to earn a living from year to year.

I think it is properly stated if we could get at least inflation of farmland under control it would probably remove a lot of the pressure.

Farmland went down, as you probably know, the past year in Iowa. I would think pension plans would be somewhat less excited about investing in farmland if they knew there was going to be only a slow return on their investment, and if they could expect it to not increase in value.

Mr. RUSLEY. If this American Agricultural Investment Management Corp. would continue to get 2 percent to 5 percent on acquisition of land, and the 8 percent and 10 percent, it would make it quite attractive for them to keep on pushing that continuously.

Mr. BEDELL. Sure. It might be hard for them to sell their product unless the land values start to go up again.

Mr. RUSLEY. Right.

Mr. BEDELL. Well, we appreciate your testimony. I think it is something I agree with you that Congress needs to watch.

Mr. RUSLEY. Thank you.

Mr. BEDELL. Our next witness is Marilyn Murphy, Coalition To Preserve Family Farms, Sioux City.

STATEMENT OF MARILYN MURPHY, SIOUX CITY DIOCESAN COALITION FOR THE PRESERVATION OF THE FAMILY FARM

Ms. MURPHY. Thank you, Mr. Chairman.

I will read a short statement and then present some matters for the record.

I am Marilyn Murphy. I am a member of the Sioux City Diocesan Coalition to Preserve Family Farms and I offer this statement on behalf of that organization. I should add, for your information, our coalition was appointed by Bishop Frank Greteman, bishop of the Sioux City diocese in 1978 and is chaired by Msgr. Cletus Keleher, diocesan rural life director.

Our statement covers two subject areas:

First. The land ownership patterns that appear to be emerging in our diocese which includes the 24 counties of northwest Iowa and some of the implications of these patterns.

Second. Some suggestions for action on the part of Government.

First, in 1979 our coalition gathered information on nonoperating landlord ownerships in six counties in our diocese from the ASCS offices in those counties.

That study was made possible through methodology shared by Curt Sorteberg, the executive director for the Iowa Farmers Union. He shared that methodology with us and we proceeded using that process.

That study was expanded this year to include an additional 14 counties. We have completed 11 of the 14.

On the basis of the information gathered in these 17 counties over the past 2 years, we can draw the following conclusions.

First, farmers who own and operate their land are a minority of landowners in every county studied. The percentage ranges from a low of 23 percent to a high of 43 percent.

Second, nonoperating owners not only outnumber owner-operators in every county studied; they own a significantly high percentage of the farmland in each county. The percentage ranges from a low of 49 percent to a high of 77 percent.

Third, there is a corresponding high percentage of land farmed by renters in each county, ranging from a low of 46 percent to a high of 77 percent.

Fourth, there is a significant percentage of farmland in each county that is owned by nonoperating owners living outside the county in which the land is located. This percentage ranges from a low of 10 percent to a high of 26 percent.

The complete report of the 1979 study and the 1980 initial report are included in the written statement submitted.

Now, what are some of the implications of this information?

First, it appears the areas studied show the trend of separating land ownership from the actual farming of land to a major degree.

Second, it appears that the rental system is becoming not an entry way into farming but a permanent part of our agricultural system.

Third, it appears that, while the problem is not one of individual ownership at this time, but of farmer ownership, the erosion of individual ownership because of advancing age or death among the present nonoperating owner group will accelerate in the next decade.

Fourth, it appears that rising land prices, 19 percent in our area in 1979, almost completely precludes entry into farming by beginning farmers, especially so in areas such as ours where farm consolidation rates are among the highest in the Nation.

From our view, and we believe society's view, the separation of land ownership from the man or woman who tills it will have an adverse effect. Communities, both urban and rural, and their institutions will suffer.

While an individual farm family or community appears powerless before the forces that are working against farmer ownership of agricultural land, we believe changes in Government policy, with corresponding changes in Government programs, can help.

Our suggestions for Government action coincide with those included in "The Family Farm," a statement issued by the United States Catholic Conference in February 1980.

Permit me to cite just 5 of those 13 suggestions at this time, without the detail that accompanies them on the attached paper: (1) Preserve farmland; (2) encourage the entrance of new families into farming; (3) reform the tax laws that stimulate farm expansion, that favor large operations, that cut heavily into farm profits without regard for ability to pay, and that encourage absentee ownership and speculation in agricultural land; (4) continue and expand credit programs to help small- and moderate-sized farmers retain control of their land under economic pressure; and (5) structure production control programs in keeping with the interests of small- and moderate-sized farmers.

These suggestions, in detail, together with eight others from the USCC statement, are included in the written statement submitted.

I conclude by thanking you gentlemen for coming to the heartland of America to listen and, hopefully, to carry back a message of urgency, and for permitting our participation in these hearings.

I am sure I have not said much of anything to you that you have not heard before from other people who have appeared here today and from meetings which you have attended around our diocese. But we do thank you for this opportunity and we will be glad to be of help in the future with any information or suggestions that we might be able to offer.

[The material attached is held in the subcommittee file.]

Mr. BEDELL. Thank you, Marilyn.

While we are passing out bouquets, I think I ought to thank you and your organization for the work that you have done in regard to this matter. I thought the meeting that you had last weekend was certainly a very, very informational meeting, very beneficial. I am just delighted that you are looking into this problem.

I would ask you, in the counties you have studied, have you done any studies that would indicate the movement in those counties in regard to whether we are seeing an increase or decrease in outside ownership of farmland in those counties.

I am aware of the figures you have. But I wonder if your studies have shown whether there is any particular direction.

Ms. MURPHY. In the six counties that we studied last year, yes, not only did we go into ASCS offices to get the kind of land ownership data we got there, but we went into the county courthouses. We tried to find out if there had been inordinate increased activity on the part of nonfarm corporations, trustees, limited partnerships, in acquisition of agricultural land.

In the 1979 study, we did find—I will read it, because I always like to be careful—we did find that there has been "increased

activity in agricultural land purchases involving"—and again I am excluding the family farm corporation—"increased activity in agricultural purchases involving corporations, trusts, trustees, limited partnerships, nonresident aliens, and business entities" and so forth, in recent years.

We looked at a 10-year period of time. We looked at the acquisition of agricultural land. And in doing so, we sorted out the land bought by family farm corporations and looked at business entities and the other groups buying up the land.

We didn't find that there were hundreds of thousands of acres involved, but there was a significant increase in activity.

Mr. BEDELL. Moving in that direction.

Ms. MURPHY. Again, we have only a basis for looking at it over the next several years, and seeing if that increased activity is a pattern or trend.

Mr. BEDELL. You have mentioned the tax laws. Have you folks looked at all with regard to inheritance taxes and do you have any stand on what should be done in that regard, any belief as to what should be done as far as the inheritance tax laws?

Ms. MURPHY. I guess I am not an expert when it comes to those things. Our coalition has taken no position on that per se. I think that it has been discussed. There are always tradeoffs.

First of all, one would hope one might be able to keep the land in the hands of the people interested in farming at this time, in families, and with their children. I hope we can keep that land in the hands of those children. At the same time you are trying to encourage people to come into farming, beginning farmers.

How you balance those two needs—one, to retain that land in the hands of the people that own it now and secondly to bring other people into that family farm system of agriculture—is something that has to be looked at carefully, and I think we have to balance those needs.

Mr. BEDELL. I assume in your checking you have not seen any evidence of pension plan money, pension funds going into agriculture in the counties that you have studied. Is that accurate?

Ms. MURPHY. We have not looked for that. No, we found none. It is very difficult to get that kind of information.

Mr. BEDELL. You were here I presume for the previous testimony which indicated if they wanted to they could buy all the farmland in the United States, if it was available, because they have enough money.

Ms. MURPHY. That is right.

Mr. BEDELL. Do you think that is a legitimate concern if there was a move in that direction?

Ms. MURPHY. I think that our coalition is concerned about the movement of land into the hands of nonfarm interests, whether it is a corporation that is located outside the State of Iowa, whether it is a corporation that is located outside the perimeters of the country, whether it is a pension fund.

I think that what we are really interested in is keeping the land in the hands of those people who will own it, who will hopefully operate it, and who will derive the greater part of their income from it.

Mr. BEDELL. I presume you would agree with some of the other witnesses who said the way they would prefer to see that done would be through changes in the tax laws, the farm program, and that sort of thing, so as to make it possible for the individual family farmer if they operate sufficiently effectively to be able to continue to exist, rather than simply a prohibition that says that so-and-so cannot own farmland.

Do you agree with that?

Ms. MURPHY. Yes; we would.

Again, I cannot speak for the coalition on all these matters. I think what we have agreed on is that there is no one answer to solving the problem. There is no simple answer. There are a variety of answers. They require attitudinal change on the part of individuals. They demand education on the part of systems, schools, churches, so forth and so on. They demand attention on the part of both urban and rural people. It is not just a problem for rural folk.

Second, that they demand action on the part of the Government.

What I handed to you here goes into a little more detail. I won't take the time to elaborate on it.

Mr. BEDELL. I am deeply grateful to you. I think you are looking at something that we need to look at in our society and that is what are our values and what type of society do we want to build.

I happen to believe that a society where there is opportunity for entrepreneurship, whether it be in a farm, whether it be in business, or wherever it may be, that you build into our laws that we have in our Government the opportunity for everybody to compete fairly, but by "fairly" I think we then mean that the big are not in a position to simply step on the small.

I think you are looking at something that is very, very important.

I am just delighted that you have taken this interest in it and have made the effort to go into the courthouses and look at these records and try to find out exactly what is happening. I think you certainly are doing it a lot less expensively and better than if the Government tried to do it.

Ms. MURPHY. As you know, Bishop Greteman has said that the strength of northwest Iowa lies in its farm families and that as the numbers of those families diminishes, so does the strength of northwest Iowa. So I think that is the underlying purpose for our concern and our interest in these matters.

Mr. BEDELL. Well, we appreciate very much your work and your testimony.

Ms. MURPHY. Thank you.

Mr. BEDELL. We said when we were through we would have an opportunity for others who wished to come before the committee to do so.

We have Glenn H. LeDioyt, from Omaha, Neb., who has asked that he be given an opportunity to testify.

Glad to have you with us, Glenn.

STATEMENT OF GLENN H. LeDIOYT, PRESIDENT, LeDIOYT
LAND CO., OMAHA, NEBR.

Mr. LeDIOYT. Congressman Bedell, you are a very patient guy. I am glad you stayed, because I would hate to have to give this speech on the way back to Omaha all alone.

I am Glenn LeDioyt from Omaha, Nebr. I represent myself.

I am in the farm management business. We manage land in western Iowa, but mostly in Nebraska. So what I bring you today is essentially the Nebraska point of view.

Now, it is my understanding that the thrust of today's hearing was to determine what legislation at the national level, Federal level, should be enacted to insure the preservation of the family farm ownership system in the Nation.

I would submit to you this is not a new phenomenon. I have been around a bit longer perhaps than some of the rest of you. I am going to give you a bit of my background to give you some perception how I, over a long period of time, have viewed this particular phenomenon.

Permit me if I go back into my own history to give you a better understanding of where I come from. I suppose subconsciously the views a person holds are shaped in a high degree by his background.

It is for that reason that I mention I was raised on a small farm, 80 acres, in western Nebraska, and had my father not been able to lease land from an outside investor, if you will, our family could not have made it in those very difficult days of the drought years of the thirties.

We did this despite the fact that my brother and my sister and I provided much of the hand labor for the sugar beets we raised. Ours was indeed a labor-intensive operation. But it was grossly inefficient in retrospect.

We used some fossil fuel in those days. We called it kerosene. That was for the cook stove and the lamps. There are now those who advocate a return to those days, sometimes referred to as the horse-and-buggy days, and thus abandon much of the technology that has made America the envy of the free world in its agricultural production.

I can testify to you today that I have no desire to turn back the clock 50 years, because indeed for you as well as for me it would mean a drab existence.

Under that kind of an archaic land use system, it is possible indeed we might have a food shortage in America rather than the abundance that we are able to export around the world to feed people in almost every nation today.

Certainly the Homestead Act of 1862, which I know something about, was a historical milestone in the settling of the West. My grandmother founded her home, a sod shanty, which later became a schoolhouse in western Nebraska.

There were many cruel aspects of the Homestead Act which came about as a consequence of the pioneer's efforts to establish a 160-acre farm in arid areas and in parts of the Midwest where the basic productivity of the soil and the rainfall were unsuited for the plow.

Those who settled in central and western Nebraska were unaware that rainfall was deficient for row crops. Nor were soil maps available in those days to help evaluate the chances of success. There were many bitter failures.

In 1890 McPherson County—and I mention that county because I taught school there, in the heart of the sandhills—reportedly had 12,000 inhabitants. I say “reportedly.” They reported 12,000 inhabitants in the year 1880. The figure was based on those that said they were living on the land at that time.

Many who claimed homesteads realized even though the Homestead Act declared 160 acres to be a farm, there was no way, no way to eke out a living on such a small tract of sandhills land in the year 1880 and 1890.

Incidentally, the population of McPherson County when I taught school there in 1934 was less than 1,000 people.

So I submit to you that the phenomenon of declining populations on our land in the Midwest is not a new phenomenon.

In the minds of many, preservation of the family farm has in fact almost become a religion. The issue has become highly emotional. I congratulate you and your committee in the Congress for keeping it in such a low key as we have today.

These are emotional words—the family, the family farm. And on the other side we pit against that corporations—not just corporations, but huge, monolithic, faceless corporations.

We talk about the absentee owner, as Jim Wolf, my good friend, today referred to it, as an outside investor. Now, that is a bad guy in the Midwest here, the investor, first of all, and the outside investor; he becomes a very bad guy in the minds of many people.

I would submit to you that there is no evidence to show that large operators are more guilty than small operators in terms of land abuse. And there are many in our society today who do abuse land, and we deplore them.

Our organization, my farm management company, sees bad land abuse at every level, and we deplore it, try to correct it.

So I stand with you here today, and you, Congressman, to do the very best job of managing, operating the farms, be they family farms or whatever kind of ownership it might be in the Midwest, to the end that it produces the maximum that that great land resource and the water resources will enable it to do.

Those of you familiar with agricultural land in the Western Corn Belt are impressed with its great, great diversity. No matter how carefully conceived we attempt to draw a blueprint for the future, outlining a broad policy of land reform as now advocated by some in my view is a can of worms.

At best it would gravely restrict the right of each individual owner to decide for himself how large or how small his farm should be, how he should own it, individually, as a corporation, as a partnership, or whatever best fits his own individual personal needs.

I would submit to this group the corporations, while they are being maligned, corporations are first of all formed by who? By people, by individuals.

In our State, my State of Nebraska, where we have 68,000 farms, which has not changed, incidentally in the last 3 years, it has not

declined. We have had 68,000 in 1977, we had in 1978, but most of the corporations in Nebraska, 85 percent, in fact, are family owned, family farm corporations.

I think that is rather significant. Because we have heard in Nebraska that corporations were going to gobble up Nebraska farmland. The Nebraska Farm Bureau has testified, not here today but in the Nebraska legislature, that by and large corporations go out of agriculture about as fast as they go into Nebraska.

Gates Rubber was mentioned as an example. I am somewhat familiar with that in western Nebraska. I contended then, as I do now, that we did not need, Nebraska did not need, a corporation law to prevent Gates Rubber from going broke if that is what they elected to do. And they would have if they had not been able to fall back on previous earnings, because they certainly did not make it out of agriculture.

I am sorry that Congressman Daschle is not here, because he questioned another witness on the size of an operation. I don't know that you can put an acre size on it. I do know this. I am enough of an economist to know that in agriculture the law of diminishing returns sets in much more quickly than we realize.

In other words, as these operations become bigger and bigger and the cost of labor and the overall cost and the efficiency, be it of the management right next door or the next town, it becomes less and less efficient.

I am convinced that large farm corporations in the Cornbelt of the Midwest will not work. The management has to be closer, as I said before—and I subscribe to this—the closer you can keep the ownership and the management at home, the better it is.

But in the same breath I will say that the guy that lives in Omaha or lives in Sioux City that wants to invest in a farm in your area here, he should not be denied the right to do it. I don't think that is the American way.

Some individuals think the solution is to enact more Federal legislation, controls, more Federal controls on agriculture. And yet in our competitive free enterprise system—and I underline "competitive"—we heard a lot about the free enterprise system. But I believe in competition. More Government controls and more regulations administered by an already bloated Government bureaucracy in Washington is not the answer.

Those who have had direct experience with OSHA I would submit to you are well aware of its failure in the farming sector.

Some condemn large holdings as an evil and to permit them to exist an injustice. I would ask to whom has justice been denied, to whom has an injustice been done? But the toughest question to answer is, who is to define and set the size, the limit on a large holding.

In all facets of life there is a certain amount of risk involved, a word we have not heard used much here today. Agricultural production is certainly no exception. Farming is a risky business. But it is still a business. And those who stay in agriculture must recognize that fact. They must manage well and be capable of making adjustments quickly and rapidly in this extremely rapidly changing world.

Man is by nature a competitor. And I think everybody in this room would subscribe to that.

As a nation we have encouraged competition in every facet of society. Basically it is the stuff of which pride is made. We harness it for much good, be it pride of family, pride of our farming operations, pride in our business, pride in our community, our State, pride in our Nation, and, yes, pride in our church.

The purpose of government in a free society, in my view, in this formula for the future, is not to pass more laws restricting competition and thus penalizing the successful. It is the function of government, however, to see that competition is inordinately fair. To that end we must all be dedicated.

No citizen, no group of citizens, be they farmers or nonfarmers, should for his own self-interest, Congressman Bedell, ask for more.

That is my testimony.

I would be glad to submit to any questions you may wish to ask.

Mr. BEDELL. Thank you. We appreciate your testimony here, Mr. LeDioyt.

Let me tell you about a concern that I have. I don't know if it is right or not, but the only way we can find answers to these questions is to discuss them honestly.

I first of all started out with the belief that the more opportunity for entrepreneurship in our society, the better society we have.

I believe that a society which consists of a maximum number of entrepreneurs, where they reap the benefits of their performance, is preferable to one in which a few large entities control everything and everybody is working for a salary for those entities.

Would you tend to agree with that?

Mr. LEDIOYT. Yes.

Mr. BEDELL. If we start with that first value, that first assumption, then I guess the concern that I have with our agricultural system as it is today is that at least historically recently the rewards for farming have tended to primarily be to a great extent from increase in land values, as we have seen land values increase so greatly in farmland.

The entrepreneur, by and large, be he a renter or a small family farmer, is primarily interested not in the increase in land values, but in trying to make enough money to provide for his family on his yearly income basis and that the outside investor tends to be primarily interested in appreciation of value, particularly because of our tax laws, which give advantages to capital gains as compared to earned income.

Therefore, the situation that seems to me we have had in recent years in farming is a situation wherein there tends to be more attractiveness for outside investment in farmland than there is for the individual entrepreneur, because of their different interests and because of what has historically happened.

Whereas it has not been catastrophic yet, I see some concern if this continues to be the situation in agriculture.

Would you tell me where you would disagree with that, or what problems you would have with that?

Mr. LEDIOYT. I can only give you some figures, Congressman Bedell.

I think maybe it is a bit ironic that those of us who fear big agriculture, big farmers, big ownership of land, are the very people who advocate a bigger Federal Government. I take a rather dim view of a bigger Federal Government, more regulations, more ramifications of existing legislation, being the answer to our problem in agriculture.

Mr. BEDELL. I don't think I agree with that assessment.

Mr. LEDIOYT. This is just one man's opinion.

Mr. BEDELL. Your assessment was those people who believe there is concern over a movement to big agriculture are people who believe we ought to have more big government. I question that.

Mr. LEDIOYT. The reason I mention that and the reason I draw the parallel, I say that our Federal Government, too, is becoming less and less efficient as it gets bigger in size. Would you agree with that?

Mr. BEDELL. Amen. I sure do.

Mr. LEDIOYT. So the parallel I drew, and didn't draw it very well, was really I think there is a relationship here, not only in farming, but in perhaps other aspects, in perhaps all business.

I referred to this earlier in my prepared testimony as the law of diminishing returns. And I think today we are getting less money, less return from our tax dollar than we did 30, 40 years ago. The same is true in agriculture.

But I also believe that the economic system, if allowed to have full play, in whatever business it is in, that as it gets too big to become efficient at the margin of production then it will have to do one of two things: either retract or go broke. And the Federal Government may be facing that. I don't know. But that is an alternative—going broke.

Mr. BEDELL. I would have no problem at all if this were a situation wherein it was whether a steel company could compete with another steel company or any of those sorts of things.

But it appears to me that the outside investor in farmland is not investing nearly so much in hopes that that farm will be operated real efficiently and make a whole lot of money. He is investing in it because he thinks land values may increase 19 percent again next year and he will only have to pay half the normal tax because of capital gains.

Therefore, I tend to question whether we have the same thing that you are talking about, in that when size gets bigger, it will automatically cause a leveling out and they will see that it does not work.

You understand my concern.

Mr. LEDIOYT. Yes.

Mr. BEDELL. Now, tell me where that concern is wrong.

Mr. LEDIOYT. I don't think the concern is wrong. I think, coming back to my premise, that economics perhaps should be given a freer play in determining size, expansion.

I also submit this. In the sales—and we are in the business of selling land as well as managing land—in that area I find that our record will show over 90 percent of the sales that we make are to whom?—To adjoining farmers. That is throughout the county.

Very few investors as such, outside investors or inside investors, whichever you prefer to call them, are investing in land today. The

testimony has been made here three or four times by other witnesses, that the reason they are doing it is this evil of inflation.

Unless we do something at some level to control inflation, then it is going to go on and on and on in my view. And instead of land being worth \$2,000 an acre, who knows, the sky could be the limit.

Mr. BEDELL. I think we agree on the problem. And of course the concern that exists is what might happen next year and the next year and the next year.

If they looked at it as if it were such a tremendous opportunity because of escalating land values, if the pension funds did go full blast into agriculture, I think there would be reason to suspect that could elevate land prices higher than they otherwise would move.

Would you agree with that?

Mr. LEDIOT. Yes; I certainly would. Congressman, if I may—there were two or three things I would like to comment on.

I would like to congratulate Tom Miller who testified and kicked this thing off today, and his report on the beginning farmer loan program here in Iowa. I think that is something that should be looked at. I realize it is State legislation. But I think that is something that should be looked at.

I have no problem with all the suggestions that were made here about the tax reform all down the line. I need not repeat those. No problem with that.

I have no problem personally, although philosophically some of my friends disagree with me on the foreign ownership of land. I can see where it should be restricted. But in saying that, I think then you are denying it perhaps to some people that helped found this country in the first place.

I do oppose the position that some have taken that we ought to keep somebody from, you name it, Nebraska from coming over and buying a farm in Iowa, whether he is a farmer operator or a nonoperator.

That is where I come from. Maybe that is filled with all kinds of inconsistencies. But I guess the whole gamut here is one of kind of pluses and minuses.

Mr. BEDELL. Well, we appreciate your testimony very much.

Is there anybody else who wants to be heard?

Dale Riediger.

STATEMENT OF DALE V. RIEDIGER, FARMER, HINTON, IOWA

Mr. RIEDIGER. Congressman Bedell, the comments that I have I want to briefly connect with the Federal estate law, inheritance tax law.

I think this is very deterrent to family type farming. The farms that are passed down approximately every 20 years, to a different generation of people, who have approximately on a \$500,000 estate, which is real estate, property, let's say 80 percent of it is, when you pass that property from one to the other, under the present law our attorneys, estate attorneys and so forth, do not fully understand the law. There have been several versions.

I know from experience we have had three of the most prominent attorneys here in Sioux City looking at one of these. It is approximately 37-percent tax against the land, against the evalua-

tion of the estate and against the land. And this, of course, in this particular instance, amounts to about \$400 an acre.

After 22 or 23 years, if we are going to pass this land to the next generation, are we going to charge \$400 an acre to each one of them?

I don't fully understand, because there are several versions. The latest version is one of the copies sent out by your office. I don't know where it was acquired from. I cannot say offhand. But I think it was the Department of Agriculture. It was in regard to the way of setting the valuation on the agricultural property.

Presently we have a group of appraisers go out and appraise the property. They have appraised it on sales value and on what it will produce—similar to the Iowa land tax—productivity and capitalization; capitalization and sales value.

But the law requires them to evaluate it on what its current use is. If it is farmland, it is current use. And it is supposed to be based, as its current use, on the Federal Land Bank's interest rate versus the amount of actual rental—average rental of this type of property.

Now, the present way they are evaluating puts on the land, say, \$1,500 an acre. The appraisers are doing it. Then it comes back to a higher net estate. You get a higher net estate to tax on, which results in 37 or 40 percent.

Can't they use the law as was written, Federal Land Bank's interest rates versus the annual rental for this property, typical cash rental. The land value would be \$1,000 an acre or less.

It makes a considerable difference when they are figuring out the tax. It could lower it as much as 5 percent. When we are talking about these things, it lowers it 5 to 15 percent. It could lower it as much on this farm from \$400 an acre down to \$300 an acre.

This is another thing that is figured every 22 years. You have to make \$300 an acre to keep it in the family.

Mr. BEDELL. I think the law says that it is supposed to be valued according to its current use. The reason for that was that if you owned a farm that was being farmed as a farm but was adjacent to a large city, where for farmland it would be worth \$2,000 an acre, but as developed land it might be worth \$10,000 an acre, they felt as long as it stayed in farming that it should be so valued.

I think the formula that is used, that you are talking about, I don't think is the law. I am not sure of that. But I think that is in the regulations. They were probably determined by IRS, as to how they would establish the value for current use. Maybe we need to check a little further on how they are doing that.

I find that IRS does not always pay quite as much attention to what Congress may ask as some of the other branches of government.

Mr. RIEDIGER. I would like to suggest that sometime or another we could have the attorneys that work for the estates have some real explanation of the 1976 inheritance tax laws.

Because now they are saying, "Well, you can delay the tax and have an installment plan on it provided 65 percent of it is farm real estate or more, you could have a delay in the tax."

Nevertheless the tax has to be paid sometime. It will have to be paid sometime in this 20-some years. And they don't fully understand what this means.

There are even some people who say if you can delay the tax, delay it as long as possible, because they are going to have a change in the tax laws.

Mr. BEDELL. I think you have hit upon a problem; that is, our tax laws are so complex, there are many, many complexities in them. In fact, I had a member of the Ways and Means Committee come out to the district, Pocahontas, Iowa, 1 year ago to speak to our lawyers, bankers and farmers about some problems that existed at that time. It was called the carry-forward basis—with our inheritance tax laws. After that it was changed, because that was sort of an impossibility.

But maybe we need to have some more meetings.

I think it is beneficial that you brought that up.

Mr. RIEDIGER. That is all I have to say. Thank you very much.

Mr. BEDELL. Is there anything more before we adjourn?

If not, I again want to thank you people for the your patience, for the interest you have shown by being here. I would like to thank all of the witnesses. I also appreciate the work of the reporter here.

The meeting will be adjourned.

[Whereupon, at 3:10 p.m. the meeting was adjourned.]

[Material submitted to the subcommittee follows:]

STATEMENT OF HON. CHARLES E. GRASSLEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Chairman, the subject of this hearing is one of appropriate concern to many of us today, especially in view of the economic situation that has confronted farmers this year.

It has been a "record" year for farmers in many ways. The parity ratio dropped to its lowest level since 1933. Farm income this year may be 40 percent below the 1929 level—the lowest realized net farm income in real dollars since 1934. Dr. Howard Hjort of the U.S. Department of Agriculture is thoughtfully giving us a new way to look at that, though so it comes out to only a ten to twelve percent drop. Dr. Hjort is anxious for us all to look on the bright side of things.

Also this year farmers are saddled with payments on production loans they had to obtain at some of the highest interest rates in recent history. This year the costs of farm production inputs have set new record increases, driven up by out-of-control inflation.

It is the family farm that is hit hardest by all this. Those of us who are concerned about the family farm both as a business and as a social institution have good reason for that concern. Inflation is the biggest enemy of the family farm today, and is doing more to ruin the business and destroy the institution than any other single factor. Inflation is driving up production costs faster than the weather is driving up commodity prices.

For instance, according to official U.S. Department of Agriculture statistics, fertilizer costs are up nearly 40 percent over February of 1979. Agricultural chemicals are up 25 percent. Fuel and energy costs are up nearly 70 percent. Machinery costs have risen nearly 20 percent. Interest costs are up 25 percent. Real estate taxes are up 8 percent. Farm family living costs are up 21 percent over February, 1979.

And, those few farm families who are able to increase their incomes to keep up with inflation find that their reward is an increase in personal income taxes.

At the same time farm families are trying to find ways to cope with these "rewards", others in the Carter Administration who helped bring about this state of affairs are being rewarded in a different way. Dr. Howard Hjort, USDA's Director of Economics, Policy Analysis and Budget, and one of the chief architects of the Administration's farm policies is the recipient of a \$20,000 Presidential Rank Award as a distinguished Senior Executive Service employee. One of his principal contributions, according to the White House, is that he has "successfully made the shift in

USDA policy from producer-oriented to consumer-oriented in policy and budgetary matters." I don't know how others may view this, but to me it is a fascinating commentary on the priorities of this Administration.

This reward for shifting USDA policies from "producer" orientation to "consumer" orientation may explain a lot to those farm families who are trying to keep their heads above water financially. It is further evidence that this Administration has never understood the critical need to assure agricultural producers in this country a fair and equitable return on their investment, labor and management. This is the best way—the only way I know of—to provide consumers with any assurance of adequate supplies of food and fiber at reasonable prices. This is the only true "consumer-oriented" agricultural policy, but it appears to be an elusive concept to this Administration.

This also happens to be the best way to protect the family farm ownership system. Farm ownership by nonfarm interest is given a foothold when family farmers are forced out by the cost-price squeeze. Laws can be passed to restrict and discourage nonfarm investment in farmland, and they have been in Iowa. This is important. But even more important is the need to keep agriculture financially sound so that family farmers have the resources to resist this outside economic pressure.

Double digit inflation and interest rates that push production costs up faster than prices can follow are sapping the vitality of U.S. agriculture. The disparity now between production costs and prices received by farmers is greater than it has been in years. Until this has been corrected anything else that can be done to protect family farm ownership will be of limited effect.

Of course there are other problems that need to be addressed. In the area of foreign ownership of agricultural land, Iowa has a good law on the books. At the federal level, data on the extent of foreign ownership is collected under the Agricultural Foreign Investment Disclosure Act of 1978—a law that resulted from a bill drafted by the Chairman of this Subcommittee, Congressman Nolan, former Congressman Krebs of California and myself. It is not perfect, but it is a giant step from where we were before. This reporting system can and should be improved as shortcomings become evident.

In the tax area, legislation that I initiated to remove tax advantages enjoyed by foreign investors in U.S. agricultural land has resulted in the inclusion of such a provision in H.R. 7765, the budget Reconciliation Act of 1980, well on its way to becoming law. Many of us have pushed for changes in federal estate and gift taxes to help protect family farm ownership. Legislation to do this is currently being considered in the Congress.

A new pension fund investment plan has stirred considerable concern this year. A few weeks ago the entire membership of this Subcommittee asked the General Accounting Office to evaluate the impact of this proposed new plan for pension fund investments in U.S. farmland. That investigation is continuing, and its results will help us determine what the appropriate legislative response to it should be.

Earlier this month, Senator Moynihan introduced a bill that would exempt from U.S. taxation the investment income earned by certain foreign pension plans in the United States. Under present law a U.S. pension plan does not pay tax on its investment income provided it meets federal standards. This bill would waive those standards for foreign pension funds. I am concerned about the implications this might have for foreign investment in U.S. agricultural land. This measure needs careful scrutiny by all who have concerns in this area.

I look forward to hearing the testimony of the witnesses before us today. Next year the Congress will begin work on major new farm legislation, and the survival of the family farm must be a central focus of that consideration. The analysis and recommendations that we receive here will form a part of the background against which some major decisions will be made next year on farm programs that will affect the livelihood and the future of most farmers in this country. It is essential that the Congress move into that effort with the best possible input from the agricultural community. This hearing is an important one from that aspect alone. I want to welcome our witnesses and thank them for their efforts.

Statement of
Chuck Hassebrook
before
The House Committee on Agriculture
Subcommittee on Family Farms, Rural Development, and Special Studies
September 22, 1980

My name is Chuck Hassebrook; I am representing the Center for Rural Affairs, a non profit, unaffiliated organization based in Walthill, Nebraska. We appreciate the opportunity to testify here today. The control of U.S. farmland has a primary impact on rural communities and rural economic opportunity. Farm structure has been the focus of our work.

In 1975 we published the report Wheels of Fortune, documenting the growth of absentee investment in center pivot irrigation development in Nebraska's Sandhills. In our study areas, over one third of the pivot irrigated land was owned by absentee investors. I will share the time allotted for my testimony with Mr. Jim Wolf, Albion, Nebraska banker and officer of the Sandhills Resources Council. He will discuss the impacts of some of these large scale investor oriented irrigation developments on the long run social and economic well being of that area. (See Appendix A)

My comments will focus on public policies which are currently encouraging and subsidizing a concentrated farm structure. The Subcommittee background paper refers to Dr. Heady's analysis of the "natural economic path" toward fewer farms. That path is not so natural as that suggests. A substantial part of the impetus for that trend is provided by public policies. The question is not only what should government do if anything to halt absentee investment and corporate farming. Rather, we need to ask what public policies are foreclosing opportunity to small and beginning farmers by subsidizing and granting a competitive advantage to investors, corporate farmers, and equally important, to larger family farmers.

There are a number of issues we could raise in this regard including technological research, distribution of farm program benefits, Farm Credit System financing of corporate and investor farming, and the shifting clientele of the Farmers Home Administration through the Economic Emergency Loan program to larger farmers. However, I will focus my comments on tax law which,

even though not normally considered in the realm of farm policy, may be the most important policy contributor to changing farm structure.

The capital gains tax exemption is an open invitation to land investors and speculators and a signal to established farmers to invest farm earnings in additional land purchase. Only forty percent of income made through land price appreciation is taxed. This benefit is even more lucrative than it appears because two of the primary costs of land ownership, interest and taxes, are deducted annually against regular income. Even on very profitable investments, land speculators can show a net loss for tax purposes because these costs are fully deductible, while only 40% of price appreciation is counted as income. Appendix B shows the impact of these provisions on investors in Iowa and Nebraska land over the last decade.

The very substantial benefits of the capital gains exemption appear to help farmers in general. However, to understand its full impact we must look at land prices and competitive position among purchasers of farm land. The capital gain exemption is of more benefit the higher the tax bracket. Therefore, it aids high income investors and larger well established farmers in bidding land away from small, moderate sized and beginning farmers. Because the provisions make land purchase so attractive, competitors bid its benefits into higher land prices creating a steady appreciation in land value. Steady increases in land value attract land speculators. They allow established land owning farmers to use their increasing net worth to borrow money to buy more land. But to the beginning farmer, rising land values create a barrier to entry that he lacks the wealth to overcome. Tax spurred increases in land values have caused the price of land to absorb potential profits in farming. Land price inflation makes land an excellent investment property, but a poor income producing property.

Investment Credit and accelerated depreciation contribute in a manner similar to the capital gains exemption, to land price appreciation and the weakening competitive position of small, moderate sized and beginning farmers. They encourage and subsidize the purchase of machinery, resulting in more and bigger machinery on the nation's farms. This creates the technological capacity for farm expansion. But the amount of land doesn't increase. So competitive bidding among farmers with the capacity to farm more land forces

the price of land higher. The appreciation attracts investors. Using the tax code to subsidize purchase of new equipment improves the competitive position of larger capital intensive farming operations over smaller and beginning farmers who rely on more labor and less expensive equipment. By subsidizing farm expansion, these provisions subsidize a reduction in the number of farmers.

THE IMPACT OF HOG INDUSTRY STRUCTURE ON FARM LAND OWNERSHIP

Hog production has traditionally provided a low investment source of farm profits through which small and beginning farmers build equity with which to purchase farm land. But production of the "mortgage lifters" is rapidly becoming concentrated in larger units. USDA predicts we'll have 80 percent fewer hog producers twenty years from now. That is twice the rate of structural change in general agriculture. The investment credit, accelerated depreciation and capital gains exemption allow investors in large scale hog factories to reap large tax writeoffs in the initial year of operation and to earn tax free income thereafter. Reform of these tax provisions would preserve the opportunity for small, moderate sized and beginning farmers to build equity for land purchase. Appendix C illustrates the per pig subsidy which these tax provisions provide to various types of producers.

Tax law is a key public policy influence on the structure of agriculture. The capital gains exemption, accelerated depreciation and investment credit have encouraged and subsidized the trend to fewer farms. These provisions have not improved farm efficiency. In many instances they encourage inefficient practices. (For example, some high income hog producers use breeding stock for only one litter to maximize capital gains deductions.) They have not improved farm income. The expansion they spurred in large scale hog production swelled supplies and forced prices down, eliminating any industry wide net gain in after tax income. They have spurred land price appreciation beyond the income producing capacity of farm land, thereby absorbing farm income. Their impact has primarily been one of redistributing farm income in favor of those who can best use tax writeoffs and benefit from land price appreciation, at the expense of small, moderate sized and beginning farmers.

(The appendixes attached are held in the subcommittee file.)

PROSPECTS FOR MAINTAINING A
FAMILY FARM OWNERSHIP SYSTEM

A Statement by

Ben H. Radcliffe, Chairman

NATIONAL FARMERS UNION EXECUTIVE COMMITTEE

Presented to the

Subcommittee on Family Farms, Rural Development and Special
Studies of the U.S. House Agriculture Committee

Sioux City, Iowa
September 22, 1980

The National Farmers Union is pleased that this hearing is being held and we commend the committee for the broad scope of the hearing subject --- the prospects for maintaining the U.S. family farm ownership system.

Last June, the executive committee of the National Farmers Union requested that House and Senate hearings be held on the proposal of the Chicago-based American Agricultural Investment Management Co., Inc., to encourage, facilitate and manage the investment of pension fund assets in the ownership and farm operation of prime U.S. farm land.

Our statement will address itself to the implications of that proposal and to the steps which might be taken by the U.S. Congress or by state legislatures to forestall its implementation.

But, we are delighted that the subcommittee has broadened the hearing subject to include other aspects of the continuing trend towards concentration in the ownership of farm land and resources.

During the last year, a very useful national dialogue on the future structure of American agriculture has been conducted by Secretary of Agriculture Bob Bergland. Several of our national officials and many of our members participated in the series of ten country hearings.

While the effort was productive and worthwhile, it was still only a dialogue. It is now time to bring the discussion into legislative focus and to examine what needs to be done legislatively in regulations on farm land ownership and control, farm stabilization, tax, credit and other policies to assure the continuation of a predominantly family farm structure of agriculture. We commend you for beginning this process in today's hearing and we assure you that at appropriate times and places, Farmers Union will be making its recommendations for comprehensive new farm legislation in 1981, together with needed changes in tax and credit systems.

PART I

FARMERS UNION COMMENT ON

"U.S. FARM NUMBERS, SIZES AND RELATED STRUCTURAL DIMENSIONS,
PROJECTIONS TO THE YEAR 2000"

It is useful first to recall what Secretary Bergland said when he proposed the national dialogue on farm structure at the Farmers Union national convention at Kansas City in March, 1978:

"We must act now to insure the kind of American agriculture we want in the years ahead. I do not want to see an America where a handful of giant operators own, manage and control the entire food production system -- yet that is where we are headed if we don't act now."

With that warning in mind, it is of some value to look at the projections in the USDA-ESCS Technical Bulletin 1625, "U.S. Farm Numbers, Sizes and Related Structural Dimensions: Projections to the Year 2000."

It is understandable that many readers were shocked by the projections contained in that report. They should have been shocked.

A summary of the projected changes in farm numbers, sizes and other dimensions appear in ATTACHMENT A.

It is important to understand that these projections are not recommendations by the USDA economists, nor even forecasts, but in the words of the authors, the projections are "a boundary notion of where the present trends are likely to lead, in the absence of significant changes in the underlying forces."

In other words, if we continue just as we are to 2000:

- * The number of farming units will drop to 1.8 million.
- * Agricultural production and farmland ownership will be dominated by fewer and fewer farms.
- * Half of the farmland will be farmed by the largest 50,000 farms and they will account for two-thirds of the output.
- * Young, potential farmers will have increasing difficulty getting started in farming. The number of farmers under age 35 will decline by 40%.

- * Corporations and partnerships will account for half the farm output.
- * Two-thirds of the wealth in the farm sector will be in the hands of those associated with farms grossing more than \$100,000 a year.
- * Capital requirements will rise to \$2 millions per farm for units with sales of \$100,000 or more --- nearly double what was required in 1978.

These projections cannot help being alarming to farmers and those who live in our farming communities.

Again, they are not recommendations, not desirable trends.

Properly understood, they should spur us to needed actions because they indicate what will happen if we fail to act.

PART II

U.S. AGRICULTURAL POLICY: PRESENT AND FUTURE EFFECTS
UPON THE FAMILY FARM SYSTEM

We see no need to debate what the agricultural structure should be. The family farm system is the clear choice of the American people and the Congress, affirmed time after time from 1785 to 1977, as we indicate in ATTACHMENT "B".

What we need to discuss is the extent to which current or future farm policies serve the family farm objective.

Our farmers and consumers have been at the whip end of wild supply and price swings in the past ten years because the Agricultural Acts of 1970, 1973, and 1977 have exposed farmers to greater and greater economic risks. But Americans have a choice in farm policy and they should not have to tolerate food insecurity, nor should the farming industry be consigned to a perennially weak economic position.

Insecurity and instability in the farm sector will show up eventually in insecurity in the consumer sector. A new and improved agricultural policy must be developed which will strengthen the agricultural system, at the same time serving the interests of all Americans. It must improve on the "risk-oriented" policies of the past ten years.

We suggest that the new farm law might be developed and identified as the "FARM AND FOOD SECURITY ACT OF 1981."

Such an Act should be designed:

- (1) to assure a viable domestic farm economy by providing price and income stability and security to farm producers, with needed incentives for ample production;
- (2) to assure a constant, wholesome, and fairly-priced supply of commodities for consumers, industry, and humanitarian needs;
- (3) to provide a "safety factor" in farm and food commodity supplies, administered so as to protect and enhance farm income;
- (4) to re-establish the United States as a dependable supplier of farm products in world markets, with effective deterrents to suspensions, embargoes, or export stoppages, for whatever reason;
- (5) to provide for farmers more effective marketing order, marketing agreement, and farm bargaining mechanisms;
- (6) to link the goals of all farm stabilization programs, marketing orders and agreements, and farm bargaining measures to the assurance of parity prices and income for farmers.

More detailed recommendations appear in ATTACHMENT "C".

Not all of the economic problems of farmers, of course, can be dealt with alone by farm legislation. We have in mind such problems as inflation, tight money and high interest rates, energy shortages and skyrocketing prices, and the effect upon consumer food purchasing power of unemployment and recessionary conditions.

But many of the difficulties of farmers would be far less serious if farm prices and incomes were maintained at satisfactory and stable levels.

It is, after all:

- low farm prices which bar beginners from farming;
- low farm prices which create the pressure for farms to get constantly larger;
- low farm prices which make it difficult for either established or beginning farmers to bid for available farmland against off-farm investors, aliens, and non-farm corporations;
- low farm prices which tend to cause increasing separation of land ownership and farm operation;
- low farm prices which aggravate our currently negative international balance of trade.

Not only are family farmers displaced, but American consumers and our society are harmed by the acquisition of U. S. farmland by aliens and absentee investors; the invasion of corporations into food production; the growth of syndication and tax-shelter farming; the development of contract farming arrangements which leaves farmers as mere sharecroppers on their own land; and the increasing dominance of markets by packers, processors, and food chains to the detriment of both producers and consumers.

It is sometimes suggested that we should just let nature take its course and let the number of farmers be reduced, so that the "larger and more efficient producers" who remain will then be able to prosper in the free market.

But it is not just some marginal farmers who are currently in difficulty -- the distress is being felt across the board by full-time, commercial and efficient farming units.

The reduction in number of farmers has not been an approach which has improved the lot of remaining farmers. When we entered the decade of the 1960's, the Nation had 4 million farming units and the national parity ratio was 80 percent of parity.

We lost one million farming units during the 60's and farm income declined to 70 percent of parity. We have lost another 300,000 farms during the 1970's and farm parity is now at 66 per cent.

PART III

FOREIGN COMPETITION FOR U.S. FARM LAND:
EFFECTS UPON FARM FAMILIES

As the officers and members of this subcommittee will likely well remember, National Farmers Union was strongly supportive of your 1978 efforts which led to the adoption of Public Law 95-460, the Agricultural Foreign Investment Disclosure Act (AFIDA).

Prior to the adoption and implementation of this Act, the extent of foreign ownership and control of U.S. farm land was largely conjectural. It was well concealed and almost impossible to document.

State legislatures, considering legislation to deal with corporate or alien ownership, encountered difficulty in establishing the dimensions of the problem.

Farmers Union supported your efforts for this "right-to-know" legislation, and particularly those sections which assured public access to the disclosure reports.

Congress has just received the second report from USDA based on the disclosure system.

The first report, made to Congress last fall and based on the first 3,392 disclosure reports processed as of August 24, 1979, showed a total of 2.8 million acres held at foreign interests and individuals.

The second report, submitted last month, incorporates data through February 1, 1980, based on 7,705 disclosure reports, and showing a total of 5.6 million acres held by foreign investors.

The 5.6 million acre total somewhat understates the situation since USDA has another 2,300 disclosure reports in various stages of processing. More than 20% of the disclosure reports had to be returned to the filers because of incomplete information.

In 1,600 instances, penalties under P.L. 95-460 had to be levied because of late, incorrect or misleading information.

So, even though we still lack more complete information, some idea of the magnitude of the problem has begun to emerge.

Some, in the USDA and the media, have seized upon statements that the foreign investment involves less than a half percent of the U.S. farm land, to term the problem inconsequential.

In doing so, they overlook some significant facts:

- * Virtually, no state is immune. Foreign ownerships of farm land are disclosed in 49 states.
- * More U.S. farm land has been acquired by alien investors in the past five years than in the preceding 50.
- * Corporations own about 81% of the total acreage reported, individuals only 8%.
- * Almost 20% of the foreign investments have been made through countries which have tax treaties enabling the investors to shelter their transactions for concealment and for tax purposes. (The U.S. Treasury Department acknowledged in a May, 1979, study, that "foreign persons rarely incur capital gains tax on the disposition of their U.S. property holdings." The same report estimated that for 1979, the revenue lost due to failure to tax these capital gains could amount to \$276 millions.)

We anticipate that as the disclosure system continues and administration of it sharpens, the proper dimensions of foreign investment will become apparent.

We are satisfied that the effects upon local communities and upon land values are serious enough to justify state action limiting or prohibiting foreign investments in agricultural land.

However, we feel compelled to advise the committee that some efforts may be made to water down the provisions of the law.

The second report suggests the deletion of Sections 6 and 7 of the law.

Section 6 is the provision which requires USDA in a timely manner to supply to each State Department of Agriculture or other appropriate state agency a copy of each disclosure report received.

Section 7 requires that every disclosure report received by USDA be available for public inspection in Washington, D.C. not later than 10 days after receipt.

In our opinion, these public access and public information provisions are the heart of the disclosure system.

How could foreign ownerships be documented without the revelation of names and identities of investors and the legal description of the land?

The whole program would become rather pointless without full disclosure and full public access. It would then deteriorate into just another mass of statistics.

We therefore hope that the subcommittee members will be vigilant against any effort to nullify the provisions of the Act.

PART IV

COMPETITION OF DOMESTIC INVESTORS FOR FARM LAND WITH
RESULTING SEPARATION OF LAND OWNERSHIP AND FARM OPERATION:
EFFECTS UPON FAMILY FARMERS AND THEIR COMMUNITIES

While some real estate officials involved in handling foreign investment in U.S. farm land have estimated that such alien investment in American farm land is in the magnitude of \$1 billion dollars a year, that figure is small compared to the potential of proposals which would tap pension fund assets for investment in farm land.

Currently, pension fund assets total about \$600 billions and they are invested in a variety of activities, which during the decade of the 1970's, earned them an average return of 4.3%.

By comparison, investments in farm real estate during the same decade earned the investors a 5.5% rate of return, AFTER INFLATION.

It is understandable that, having witnessed the escalation of farm land values during the 1970's, some persons and firms would have been impressed by the speculative possibilities.

The experience of one pension fund, with considerable investment in farming operations is instructive.

According to its 1979 operating report, the Travellers Group Co. pension fund earned typical returns ~~of~~ ranging from 10.50 to 16.60 per cent on farm holdings and mortgages, with the average return being 12.82%.

Travellers listed 53 farm and timber properties in its real estate portfolio and reported that 18.7% of its \$6 billions in real estate investments was in agricultural property, or \$1.18 billions.

Commenting on its investments in agricultural real estate, the 1979 Travellers Group Pension Division report said:

"Operationally, agriculture remains a high-risk business. Yet it utilizes one of the world's most durable and sought-after resources (land) and the demand for its unique products is universally expected to increase over the long term."

We noted above that current pension funds assets are reported at \$600 billions. They are projected to grow to \$1.5 trillion by 1990.

Farm real estate assets today are valued at \$599 billions. Assuming an average inflation rate of 6%, they will increase by 1990 to perhaps \$1.1 trillions, apart from the normal addition of the value of real estate improvements. (Such improvements totalled \$25.6 billions in the years 1971 through 1977.)

What it adds up to is that there will continuously hereafter be more than enough assets in pension funds to buy all the farm land in the nation, if that is the choice of investors.

As we have indicated above, the farming business is a high-risk operation. In 1979, USDA has reported that farm income as a return on farm equity averaged 4.1%, which compared with a 16.7% annual rate of profit on stockholder equities in manufacturing industries. The average return on farm equities in the decade of the 1970's was 4.8%, the average return in manufacturing industries about 21%.

Returns in farming are low and erratic. They varied between 2.6% and 10% during the 1970's.

Judged from the rate of return in farming itself, it would appear that investments in farm land would fail to qualify under the restrictions placed on fund managers by the Employee Retirement Security Act of 1974 (ERISA). That statute generally directs managers to avoid large risk, it requires them to diversify investments and mandates them to use the "care, skill, prudence and diligence" of a "prudent man."

However, it is clear that farm land investments are still attractive, despite the low earnings in farm operation, because of the apparent rapid appreciation of farm land values.

The increases have appeared more spectacular than they are. Farm real estate values have increased less than inflation since 1975. When compared in constant 1967 dollars, farm real estate values totalled \$197.7 billions in 1975 and \$197.2 billions in 1979. During those years, an average of about \$4 billions was being spent by farmers for farm real estate improvements. Thus, there has been a net decline of \$4 to \$5 billions a year in real estate values in 1967 dollars.

In current dollars, farm real estate values increased by 65% from 1975 to 1979. At the same time, the average value of single-family homes in all U.S. metropolitan areas increased by 88%.

Nevertheless, the perception of spectacular appreciation in farm land values persists and continues to encourage off-farm investors to look at the "green pastures" in agricultural America. In effect, these investors assume a vested interest in continued inflation when they buy farm real estate.

Such was the apparent motivation of the ill-fated "Ag-Land Trust" scheme, promoted by the Continental Illinois National Bank and Trust Company of Chicago in 1977. Apparently, some of the same motivation also is indicated in the new proposal of the American Agricultural Investment Management Co., although the new plan intends to concentrate on purchases of prime farm land and hopes that the operation of the farm land also will result in some profits for the pension fund investors.

The American Agricultural Investment Management Co. has been incorporated by three former executives of the Northern Trust Co. of Chicago, a bank which manages farm properties in many states. One newspaper account has indicated that there is a connection between Northern Trust and the AAIMC, but this is otherwise unconfirmed.

The AAIMC differs in some respects from "Ag-Land Trust," most notably in that the firm will facilitate the investment of pension fund assets in farm land and will manage the properties for investments, but it will not hold title to the land as the investment pools to be formed under "Ag-Land Trust" would have done.

The Farmers Union, however, finds the new plan no more desirable than the 1977 plan and we oppose it for the same basic reasons. We do not need a new generation of share-croppers on the land.

It is undesirable, to begin with, to separate farm land ownership and farm operation. Public policy ought to be helping families become owners of farm land, rather than separating them from the ownership of the land.

It is argued by the promoters of AAIMC that they are doing a great service to rural America by freeing up capital of farmers, since they will be able to invest more in production inputs when they are relieved of the costs of land ownership and finance. They talk about the capital shortage in agriculture, but they fail to recognize that the real problem in farming is an income deficit rather than a capital deficit. From time to time, there is a credit crunch in agriculture but it is because farm income and earnings are low and erratic. An agricultural economy earning fair returns will be able to command all the credit farmers need. Those who think that all that is needed is more borrowed capital are looking at the wrong end of the problem.

We are concerned greatly about what the presence of vast amounts of pension fund money seeking to buy farm land will do to real estate market values.

These values are already far out of line with the earning power of the land.

To introduce billions of dollars into the bidding process for available farm land, will certainly cause an increase in farm land prices and this may be particularly harsh where the bidding is concentrated in particular areas.

We are concerned also that impact of the pension fund investments will reduce the opportunities for young or beginning farmers to get a start in farming.

Again, public policy ought to be encouraging the entry of young and beginning farmers, not foreclosing it.

In our opinion, steps can be taken either at the federal or state levels. Regulation of land ownership traditionally is a state responsibility and state legislatures could legislate on this problem just as they have on corporate or alien farm land ownership or farm operation.

But, a federal remedy is also possible, either in the form of legislation along the lines of the "Family Farm Antitrust Act," HR 7822-S. 334, or by amendments to P.L. 93-406, the ERISA statute.

P.L. 93-406 could be amended, either to completely bar the investment hereafter of regulated pension fund assets in agricultural land, or to sharply limit the percentage of assets of any pension fund which can be invested in agricultural resources. This would be clearly consistent with the existing guidelines which discourage risky investments and require "prudent" management by the fiduciaries.

In conclusion, the problems of retaining ownership of farm land are broader than merely coping with an "Ag-Land Trust" or AAIMC. Many things are needed. Sound tax policies, young farmer assistance programs, a strengthening of the family farm objectives of reclamation law, among others. Our more detailed recommendations appear in ATTACHMENTS "D" and "E".

(The attachments are held in the subcommittee file.)

PREPARED STATEMENT OF NORMAN M. AND GENEVIEVE K. DEAN ADAMS,
WINTHROP, IOWA

On approximately May 30, 1978, there was an ad in the Hoard's Dairyman wanting to lease property for a dairy operation. I called this number on my way to Chicago to go to Washington, D.C. I was told to contact the American when I got back approximately June 7, 1978. When I came home I again called and was told that he was bankrupt and that there was no further deal. The next night upon telling my wife of this conversation and leaving her to go to a neighbor's a call came stating that we would be out tomorrow or June 8, 1978. After calling back a third time, I was informed that it was a Frenchman. (All this time I was calling collect for the ad specified so).

The next morning a general dynamics truck was driven into my yard by a German without a chauffeur's license, a domestic, or an international driver's license.

After a few moments of looking over my second farm he then asked to see my farm manager, Doane's Agricultural Service, 3120½ Kimball Avenue, Suite C, Waterloo, Iowa, Mr. James Moore, resident agent. The five of us were only 15 minutes still talking lease when he turned on me and stated what I had previously said that land was going for \$3,000 an acre in my area and that he would just make it \$5,000 and forget all about lease, needless to say my farm manager was shook up a bit for he too thought we were talking of leasing.

Since this time I have been commissioned by a Mr. Curt Sorteberg, secretary of the Iowa Farmer's Union, 6538 West University Avenue, Des Moines, Iowa to do a survey in my county of Buchanan at the ASCS Office.

Before I had permission, I was told that there was only one foreign landowner in Buchanan County and that he was a Frenchman, but that he had shot himself, I later found out that the Central National Bank & Trust Company of Des Moines, Iowa, was managing his properties.

I did not get any further than the B's than I found that the Busse & Benek Office of Vinton manages a property for a Dr. Yang Ahn. Also there were others in my first tray of at least four that I could count.

At this writing I do not have an opinion on the word "limited" but it was our impressions that this was a foreign connotation for a corporation, so that we still think that there are more which we will continue to research out in this county, but since this is an election year and we have to go to Chicago to work for our congressman, and your hearing was in Sioux City, Iowa, on Monday, September 22, 1980, we have only 30 days to get this report in and it can only last for 5 minutes, we believe this to fill the time slot.

If there were to be an extension of time after November 5, 1980, we would appreciate this opportunity to give further evidence of foreign ownership of properties in Buchanan County, Iowa.

We thank you for this opportunity of being of service to you.

Statement Submitted
by the
Minnesota Farm Bureau Federation

TO MEMBERS OF THE SUBCOMMITTEE ON FAMILY FARMS, RURAL DEVELOPMENT AND SPECIAL STUDIES
OF THE U.S. HOUSE COMMITTEE ON AGRICULTURE:

The Minnesota Farm Bureau Federation is a general farm organization, the state's largest, with nearly 35,000 member families in 83 organized county units.

We appreciate the opportunity to present the following statement for the hearing record.

* * * * *

Since its inception more than 60 years ago, Farm Bureau in Minnesota and nationwide has been dedicated to providing family farmers a means of working together to create conditions whereby they may earn and receive a high per family real income and other benefits in a manner which will preserve freedom and opportunity.

While most believe the family farm is one of the basic cornerstones of our American heritage and way of life, there appears to be a wide range of opinion on what a family farm, by definition, actually is. Indeed, there may well be almost as many definitions of a family farm as there are family farmers.

Be that as it may, there seems to be general agreement that a family farm is just that--a farm owned and operated by a family. Usually it is a husband and wife and their children who run the farm. Sometimes it may be a father-son partnership, or a partnership of two or more family members. Then again it may even be a farm corporation with stockholders members of the immediate family.

The issues relating to farmland ownership, survival of the family farm and corporate farming are among the most controversial--and exaggerated--in agriculture today. Fears of corporate takeover of our industry, and the resulting demise of the family farm, are without foundation. It is an emotionally charged non-issue; it is myth rather than reality.

For despite the scarce tactics of politicians, social scientists, church activists and the "bigness is badness" alliance...despite what we read and hear about the death of the keystone of American agriculture and the economic background of the community... the family farm is not only alive but well.

Patterns of farm ownership in this country have, in fact, remained virtually unchanged for the past 50 or more years. (Russell Berry, associate professor of economics at South Dakota State University, says: "Large-scale corporations have been trying to take over farm crop production and ranching for at least 200 years. But they have not succeeded in the past and they are not likely to succeed in the future.")

A half century ago, from 2 to 3 percent of all farms could be classed as "corporation" farms. Today's figures show that corporation's of all types now operate less than 2 percent of all U.S. farms. What is more, corporate farms of various kinds now account for only 11 percent of the land being farmed and sell only 18 percent of the value of agricultural products.

However, included in corporate farm figures are actual farming operations which for various reasons (ease of property transfer to heirs, tax advantages, et al) have incorporated. On a related note, U.S. census statistics show that nearly 80 percent of all corporate farms are family owned and operated, and agricultural corporations with 10 or more shareholders are responsible for only 5.3 percent of total U.S. farm sales.

Again, the U.S. census indicates that in 1975, the most recent data base year, individual farmers bought two-thirds of all acres transferred while family owned corporations bought 18 percent of the acreage sold that year--twice as much as the purchases of that group three years earlier. Farm partnerships bought another 15 percent.

Further, only 3 percent of the land transferred from 1972 through 1974 was purchased by non-farm corporations. But 3 percent of the land transferred was also sold by non-farm corporations in the same period. This zero net change in land held by non-farm corporations in the mid-1970's indicates that many non-farm corporations quit farming in a period of relative prosperity and rapidly rising land values.

All this, of course, is not to say that in spite of its success as the world's most cost-efficient and productive food and fiber unit, threats to the existence of the family farm are not real. In addition to the usual hazards of weather, disease and low prices, the entry into agriculture of large amounts of outside capital is a concern. Raising serious questions also as to who might control tomorrow's agriculture is the extensive development of various forms of vertical integration; the activities of huge business and marketing of agricultural commodities; and attempts to invest certain pension and profit-sharing funds in agricultural land.

Farm Bureau is well aware of the potential harm that activities of these kinds could bring to family farms. Therefore, we urge continued study of the effects of

the entry of non-agricultural firms into farming; avoiding the creation of tax advantages which encourage such entry; strengthening farmers' ability to bargain with integrators and other handlers; encouraging more effective group action in buying and selling so that the economic position of family farmers might be reinforced; and opposing the use of land by pension and profit-sharing funds as a long-term tax-sheltered investment.

Of no less concern to Farm Bureau is the farm price-income situation. We recognize, and we appreciate, that current prices in many instances scarcely cover production costs much less provide a fair profit for the family farmer. Because of the seriousness of the problem, and the adverse impact it is having on numerous family farmers, Farm Bureau has assigned top priority to improving net farm income.

To bolster farm prices and net incomes, we are placing renewed emphasis on expanding U.S. export markets--the real answer, as far as Farm Bureau is concerned, to the problem of surpluses. We are also vigorously promoting aggressive domestic programs to enlarge upon market demand.

Another meaningful step toward improving net income for family farmers, we strongly feel, is to further develop and strengthen marketing organizations, structures and programs. Faced as often they are with a financial crisis, deserving family farmers should be aided also by emergency credit programs, broadening and expanding the lending authority of the Farmers Home Administration (FmHA), with a high priority given farm loans.

We would conclude by stating that if the present family farm economic situation is to be changed for the better, market solutions are the only realistic and workable ones. Applying political Band-aids to economic ills serves only to compound most of them. If they are to be properly treated, and cured, it is going to take an economic prescription.

In the final analysis, there is every reason to believe that the family-owned family-operated farm of this country will remain the most efficient tool we have to produce food and fiber--an established heritage to be zealously guarded and preserved--if Congress is not stampeded into applying unwise programs of federal land management, or production controls, or price restrictions, to fence farmers away from their troubles--both real and imagined.

Farmers, after all, know fences work both ways.

Fencing out also fences in.

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