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FAMILY FARM ENTRY ASSISTANCE ACT

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HEARING

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

ON

S. 582

A BILL TO PROVIDE FEDERAL GUARANTEES FOR STATE PROGRAMS DESIGNED TO ASSIST INDIVIDUALS WHO, EXCEPT FOR THEIR LACK OF FINANCIAL MEANS, WOULD BE QUALIFIED TO ENTER FARMING ON A FULL-TIME BASIS

TUESDAY, APRIL 3, 1979

Printed for the use of the Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1979

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FAMILY FARM ENTRY ASSISTANCE ACT

TUESDAY, APRIL 3, 1979

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

The subcommittee met, pursuant to notice, at 10 a.m., in room 324, Russell Senate Office Building, Senator George McGovern, presiding.
Present: Senator McGovern.

Also present: Senators Stewart and Boschwitz.

Senator McGovern. The subcommittee will come to order.

Senator Boschwitz is a member of the Committee on Agriculture, but he has to attend an urgent meeting of another committee. He is here and wishes to present one of the witnesses we are going to hear from a little later this morning.

Senator Boschwitz.

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM MINNESOTA

Senator BOSCHWITZ. Thank you very much, Senator McGovern. In addition to being on both the Small Business and Agriculture Committees, I am also on the Budget Committee. Beginning this morning we are marking up the budget in committee, so I really have to be there. But I would like to introduce Dr. Dennistoun, from Minnesota, who is going to be one of the witnesses testifying before you this morning.

Dr. Dennistoun comes from Red Lake County, Minn., which is one of the two counties in Minnesota I didn't carry, which is probably because he moved away. He grew up there on a farm. He grew up there through the depression.

He is presently the Deputy Commissioner of Agriculture in Minnesota. He taught at the University of Minnesota, after receiving a degree in agriculture there. For 12 years he oversaw the experiment station for the University of Minnesota in charge of the crops and livestock program at the experiment station.

He has been with the Department of Agriculture for 14 years.

Along with that, Dr. Dennistoun comes with other kinds of qualifications from the standpoint of having served his community very well: 18 years as a member of his local school board, in a school dis-

trict that has increased in size from 750 to 11,000 students. In addition he is past president of the Minnesota School Board Association.

I understand that Dr. Dennistoun will not be your first witness.

Senator McGOVERN. That is correct, but we are looking forward to hearing from him.

Senator BOSCHWITZ. I think you will enjoy him. And, Dr. Dennistoun, it is my pleasure to introduce you to Senators McGovern and Nelson and the committee. Please accept my apologies for not being able to stay.

Senator McGOVERN. I just discovered one advantage I have over you. It is a lot easier for me to find counties that I didn't carry than it is for you.

Senator BOSCHWITZ. Well, that is bad in South Dakota because I believe you have fewer counties.

Senator McGOVERN. That is true, and fewer voters.

Thank you, Senator Boschwitz.

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

First of all let me say that I am very pleased to convene this meeting this morning, along with Senator Nelson of Wisconsin. Senator Nelson and I came in the Senate at the same time, after the 1952 elections. For various reasons, of which long-time friendship is one, we have been seatmates in the Senate during that entire 16-going on 17 years that we have served in this body. I have benefited from it greatly not the least of which is the interest that we both have in the field of agriculture. Although Senator Nelson is not a member of this committee, I don't know of anyone in the Senate who has followed agricultural concerns with greater sensitivity and compassion and concern for the problems of the farmers, and especially the young farm families who are trying to get established in agriculture. The problem is right at the heart of the agriculture credit question today: How we can enable young people who want to make a career of farming to get started? Where do they get that nearly a quarter of a million dollars that it takes to start up and maintain a viable farm unit?

There was a time when you could break into farming for a few thousand dollars and make it. This is no longer true. So unless a young man wishing to go into agriculture is fortunate enough to make a provident marriage or to have had a wealthy father established in agriculture who can pass on a farm to him by inheritance, it is very, very difficult indeed to get the financing that is necessary to make it on the farm today.

I regard that as agricultural credit's problem No. 1, and I know Senator Nelson shares that view.

One of the disturbing things is that you look at the age of the farm families in this country today and it comes out somewhere around 55 or 56 years of age. That doesn't seem as old to me as it used to, but I know that in farming, with the kind of backbreaking labor that is involved in it, when the average person doing that work has passed the age of 55, one has to ask what we are doing in order to insure the future of farming, where are the young replacements coming from and how are they going to get started.

Now it was that concern that several years ago led Senator Nelson and I, along with 17 of our colleagues in the Senate, to introduce what we call the Young Farmers Homestead Act. It was built on the philosophy of the old Homestead Act of the 1860's, and it followed somewhat the pattern of a program that has been operating in Saskatchewan for a number of years. That program was designed to utilize some Federal funding to help farmers in this initial 5- or 7-year period, while they were getting established. Unfortunately, we ran into problems with that legislation, both with the Ford administration and with the present administration, because it does cost money and it would have required some Federal outlays, but it was about that time that we became aware of the fact that Minnesota had enacted similar legislation and rather than using Federal moneys, they simply provided a State guarantee for private credit that was available to young farmers; and while it has been a modest program, it is my understanding that in the course of some 3 years time they have been able to guarantee the loans that enabled some 86 young farm families to get established.

Now the legislation we are considering today models itself after the Minnesota plan insofar as it delegates to the States the originating process of developing a plan for young farmers and I am very hopeful that the legislation, if it doesn't already have the support of the Department of Agriculture, that we will be able to persuade the Department that this is a program that makes sense.

In any event, I am delighted, as I look over the witness list that we are going to hear from today, and I want to yield now to Senator Nelson for any remarks that he would care to make.

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM WISCONSIN

Senator NELSON. Senator McGovern, I think you covered the background of it very well. Actually the record which Mr. Dennistoun will talk about is a little better than you suggest. I think it is 86 farmers, young people, that have been put on farms in 14 months, according to our figures, which is since it started better than one farmer per week. It is correct this proposal is patterned after the concept of the Minnesota bill, and the role of the Federal Government would simply be to provide the guarantees since there are, I am told, a substantial number of States that may not, under their constitution, make that kind of a guarantee. Minnesota, obviously, is an exception.

An important part of this proposal is that the State manages the program, runs the program and decides what options there should be in the program. Minnesota will allow the interest to be exempt from Minnesota State taxation in a loan of this kind, which makes the value of the cost of the land cheaper to buy, but whatever a State may wish to do in terms of flexibility to accommodate its program to agriculture of that particular State, the State will do on its own. We will not create a Federal bureaucracy to manage it. You will have it operated closer to home, by the people who are there. I think that is an important virtue of this program.

Mr. Chairman, we conducted hearings, as a matter of fact—the Small Business Committee did—on this concept in Eau Claire, Wis., in December of 1978; and we had representatives who came from Minnesota to testify on the Minnesota program, and I was tremendously impressed with the program that Minnesota had established.

I would ask that my statement simply be printed in the record, in order to economize on time, as well as the statement I made at the time we introduced the legislation sometime back.

Senator MCGOVERN. Without objection, the statements will be included in full in the record, and I will make the same request as to the prepared statement I have. We have a statement from Representative Berkley Bedell that also will be inserted in the record.¹

Senator NELSON. Mr. Chairman, may I say in a little bit I have to go because I have another appointment, but I appreciate the chance as the Chairman of the Small Business Committee to sit here with the Agriculture Committee on this hearing.

Senator MCGOVERN. Thank you very much, Senator Nelson. Our first witness is the Assistant Secretary of Agriculture, Mr. Alex Mercure.

Mr. Mercure, we are glad to have you as our leadoff witness, Congressman Nolan may come in at some point and we will put him on after we have heard from the Assistant Secretary.

STATEMENT OF HON. ALEX MERCURE, ASSISTANT SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. MERCURE. I would like to invite Mr. Cavanaugh and Mr. Lee to join me. There are a number of other people here, Henrietta Singletary and Mr. Lee, if you would like to join us here.

Senator MCGOVERN. Anyone that you wish to sit at the table is welcome to be here.

Mr. MERCURE. We have submitted a copy of our testimony to the committee, but let me read some of the critical points. I appreciate the opportunity to appear before you.² I also want to express our appreciation for the support you have given us last year in modifying the credit features of the Farmers Home Administration, which made it much more workable, in our view, for a great majority of the farmers in this country.

The Department shares fully your views on the merits of the family farm as a producer of food and fiber and as a stabilizing force in American society. We agree that people who have the ability, interest, and other attributes to become successful farmers should not be excluded simply because they lack the financial resources to begin.

We further believe that we have the tools in hand to make this farm ownership possible and that additional legislation is not needed at this time. Therefore we do not support Senate bill 582.³

The tools that were included in legislation last year and were signed into law by the President last August provide us a law that gives impetus to the limited resource farm loan program and another program of guaranteed farm ownership loans.

Both have now been fully implemented and, although yet quite new, both show early signs of greatly expanding opportunities for new farmers. The limited resource program is just reaching the "take off" point since being launched in November. The guaranteed-loan program is not as far advanced at this point, but it has just been put on to full course.

¹ See p. 34 for the prepared statement of Senator McGovern, p. 35 for the prepared statement of Senator Nelson, and p. 48 for the submitted testimony of Representative Bedell.

² See p. 50 for the prepared statement of Mr. Mercure.

³ See p. 38.

First let's look at the limited resources plan. Final rules went out in November. Because our county and State offices were fully occupied in processing emergency and economic emergency loans authorized by the same bill, the limited resource plan did not meet with a borrower's rush at the beginning.

Starting from zero in December, the number of applications approved in the next 14 weeks, ending March 14, reached 1,112 for ownership loans, totaling \$82½ million. Operating loans totaling 1,436, for \$41 million, were approved.

To help emphasize the potential of this unique approach to beginning farm ownership, we set a goal of 25 percent of available funds, or \$200 million each for ownership and operating loans out of a total of \$1.6 billion, for it.

As might be expected, some States are reaching the target quicker than others. Missouri, with 98 limited resources farm ownership loans totaling \$6.8 million, is well over the 30-percent mark. So is Vermont, with 23 loans. Others that are above or approaching the 25-percent goal are Minnesota, Kansas, North Carolina, and Oregon.

Some States, where demand for FmHA loans is unusually strong; such as Wisconsin, have such heavy backlogs of applications for regular loans that the limited resource loans have not yet shown up as large percentages.

I am sorry to say that, Senator Nelson.

We are finding many variations of borrowers who, by the way, average in their thirties as against the average age of 55 for farmers nationally. In fact, as of yesterday I am told we are working on an average of about 35 years for FmHA borrowers. For example, an 18-year-old from North Carolina, who began 2 years ago on a \$1,700 youth loan, received a \$21,000 limited resources loan to develop a feeder pig operation on his father's farm. We can talk about a great number of examples. Just let me use one other one which we take great pride in because it represents a significant shift in attitude.

A New York woman, whose husband was disabled in a bus accident, received a \$90,000 loan to buy and a \$60,000 loan to operate a dairy farm. A Louisiana man received \$62,000 to buy and \$10,000 to operate a soybean farm.

You can see that the limited resource program, with a direct and substantial subsidy to the borrower, is taking hold. The interest rate of 3 percent for the first 3 years and 5 percent for the next 2 years on real estate and 5 percent for the first 3 years on operating loans. This substantially reduces the borrower's cost of credit, particularly during the startup phase of that farm enterprise.

We all know one of the critical elements is the beginning part of the enterprise and we need somehow to work so that the equity system can be built up and reducing the load on the first part of the term of the loan is, in our view, an important element of this limited resources loan program.

The guaranteed loan program received its wings a little later, so to speak, but it is now off the ground. The fiscal 1979 budget includes \$50 million for farm ownership and \$25 million for operating loan guarantees. We have recommended the same amounts for fiscal 1980.

These loans can be guaranteed up to 90 percent. As a rule, many who qualify for a regular insured loan may qualify for a guaranteed loan. Interest, of course, would be negotiated between the applicant and the lender.

We are emphasizing the need for potential borrowers to be apprised of this opportunity and, as public awareness expands, we expect this program to grow at a pace similar to that of the limited resource plan. I might note that the Farmers Home Administration, less than 2 weeks ago signed an agreement with the Farm Credit Administration under which the FmHA will guarantee loans made by the Federal Land Banks and Production Credit Association.

There are other advantages in current programs. One a built-in delivery system already is at work and there would be no need for additional personnel or administrative costs or layers of government.

There is no need to consider reimbursement to the States, which would be necessary under S. 582, because most States operate under personnel and budget limits. This is of special importance at a time of growing interest and rising demands for budgetary restraints.

To sum up, we believe the limited-resources loans, insured loans at cost of money, and guaranteed-loan programs meet the principal criteria for a plan to help beginning farmers. They make financial assistance available; they reduce the cost to the borrower who needs startup assistance just like most business ventures. They do not impose additional financial burdens on any other level of government. They do not add new layers of bureaucracy, and they provide for sound and prudent management by providing for clear-cut mortgage security. And borrowers throughout the United States have an existing office with staff available now to assist them.

We believe these programs will work. We are striving to make them succeed, and a reasonable amount of time is all we need. Many of the authorities to assist family farmers became law only 7 months ago. I might point out, Senator, that many of you were critical about getting the kind of authority that we needed to make limited resource farm loan operate and work effectively, but we believe that that is the kind of assistance that is most appropriate to help the limited and beginning new farmer.

That concludes the formal part of my testimony.

You asked a number of questions in your invitation to testify. I would answer them at this point or answer them as you ask your questions, if you have any.

Senator McGOVERN. Well, Mr. Mercure, with all due respect for the limited resource program, I find it difficult to think that that is really going to do the job. I think it is fine, as far as it goes, but how many farm families do you really think you are going to reach with that program who are in the category of qualified, promising young farmers that have the talent and ability, the educational background, to make a go of it in agriculture and who lack only one thing, and that is the financial resources to begin? They have the education; they have the desire. How many of these people are you going to be able to reach with the limited resource program?

Mr. MERCURE. Well, the way the program is tailored, it is particularly directed at the new farmer who has, as you indicated, the intellectual capability and the background and experience, but does not have the capital. It is also aimed for the farmer who has been in business and who, again, does not have the capital, but needs resources to expand. Basically those are the two primary clients, and my impression—maybe Mr. Lee or Mr. Cavanaugh can expand on my state-

ment—is that is primarily the client we have been serving, and to date, for the short time the program has been in operation, that is over 1,000 farmers.

Mr. Lee or Mr. Cavanaugh?

Mr. CAVANAUGH. I was just going to add, Senator, that, as the Secretary has indicated, we have been at this a short period of time, but up to date, through this fiscal year, we have made approximately 1,200 farmownership loans to limited-resource farmers.

Senator MCGOVERN. How does that break down between entering farmers and ones who were already in business?

Mr. CAVANAUGH. I can't give you the breakdown for that particular figure, but generally about half of our farmownership loans are estimated to go to people who are entering a new operation. Some of those would be qualified for the limited-resource interest rates, which, as you will recall, are very preferential to anybody who is in that category. It is a 3-percent rate for the first 3 years of the loan and then a 5-percent rate for the next 2 years of the loan, and thereafter the interest rate is reviewed periodically to see how much the person can carry, with the rate not going below 5 or above the cost of money. We have given strong emphasis to our State directors and field forces to make good use of that resource division on behalf of the kind of farmer that you and Senator Nelson expressed concern about today. We think we are making some headway with that and that we are making good use of the program on behalf of that category of farmer.

As you remember, in the legislation it was coupled with the reduction in the operating loan interest rate, and that rate can be at 5 percent for the first 3 years, and then reviewed after that, and can stay 5 and go no further than the cost of money.

Senator MCGOVERN. As I said, I have no quarrel at all with the limited-resource program, other than the fact that it is very limited in resources. The program has kind of a double meaning to the title. It is my understanding you have a total of about \$400 million, is that correct?

Mr. MERCURE. That is correct, although it should be pointed out that a new farmer whose farm plan suggests it can support what we call the cost of money rate, which today is 9 percent on a real estate loan, there is no reason why a new entry farmer could not take advantage of that loan program; when you look at that, there is a significant sum, probably above the \$200 million, on ownership.

Senator MCGOVERN. Above \$200 million?

Mr. MERCURE. Yes.

Senator MCGOVERN. But when you are talking about new farmers entering agriculture, when we look at that \$400 million, your intention, as I understand it, is to allocate about half of it to people that are already in farming, but would need some additional assistance. I am not quarreling with helping people who are in farming, but what we are trying to focus on here today are the people that can't get in, and isn't it fair to say that not more than roughly half of the budget you have, which is a modest budget to begin with, is going to be allocated to new farmers.

Mr. MERCURE. I think you are about right.

Senator McGOVERN. So that cuts us down then to, roughly, \$200 million that would be available for entering farmers, and am I correct that a sizable amount of that will go to farmers that are handicapped by not only limited finance resources, but limited education and limited ability. In a sense they are people who have been deprived of the opportunity to develop the kind of educational and personal capabilities that would make for an ideal farm operation; is that not true?

Mr. MERCURE. I think at worst we are talking about a total of \$200 million for the new farmer; the other \$200 million probably going to the small farmer who needs to expand.

Senator McGOVERN. My point is even with the \$200 million you are advocating for new farmers, about half of that doesn't go to the people that you think are going to be the best farmers; it goes to people who are handicapped or deprived, not only financially, but by lack of education and background, and that's fine—I am all for helping those people—but when you talk about the young man in Wisconsin or South Dakota or Nebraska or Kansas who is well qualified to go into agriculture, he doesn't have any handicap, he has a good educational background and the only thing he lacks is money, when it comes to those people out of that \$200 million earmarked for new farmers, isn't it true that only about half of that is going to go to those people that are the best qualified to go into agriculture?

Mr. MERCURE. Well, I don't think that is really quite true because for the person you just described, we are probably lending considerable amounts of money out of what we call the regular farm loan program, the ownership program, which is at cost-of-money rates, which would be less than the guaranteed rate, by the way.

Senator McGOVERN. What do they pay? What is their interest rate?

Mr. MERCURE. Their interest rate is 9 percent.

Senator McGOVERN. You see, that is the problem, because if it is going to cost \$200,000 or \$250,000 to get into agriculture, the person who has no educational handicaps, or is not deprived in any way except he doesn't have a rich father or he doesn't marry into a family that is established, those are the people that I see outside of the reach of the limited resource program.

Mr. MERCURE. Well, you are right in that respect. I think, however, we are talking about loan guarantees, using an independent lender. You are probably still talking about high rates of interest, relatively high rates of interest, and that is where we probably begin to see some difficulty in terms of the new farmer getting into the business.

Senator McGOVERN. But at least you are opening up the possibility of a State looking over the applicants who want to get into agriculture. You have a screening process that is designed to determine who would be a viable farmer, if he had financing, and you bring that down to the level where a State commission or board would have the opportunity to make a judgment as to who is qualified to go into agriculture and who isn't.

What I am getting at is I really can't understand the Department not embracing this program in addition to the limited resources program that we have already given you.

Mr. MERCURE. Our difficulty is in trying to figure out how—well, there are a number of problems. The law calls for guarantee of either

the loan, ownership through loan, real estate contract or lease and, in essence, the State agency submits a plan and guarantees these loans.

Now I assume these loans are going to be at or near market rates of interest, or plus 1 percent, which is the fee that is built into the bill. Now if we are looking at market rates of interest, then we are really talking about, in today's market, probably 11½ percent or a guaranteed rate.

The Federal land bank, for example, which has a variable rate of interest, the Federal land banks are considerably above 10 percent, 10½ percent. We are working with them to guarantee Federal land bank loans, so that is one of the major difficulties.

Senator McGOVERN. I want to get into this with the later witnesses, but it is my understanding under the Minnesota plan, as well as this legislation, States are authorized to move ahead and develop their own plans.

Mr. MERCURE. That is, you know, not clear and we could have probably as many variations as States would submit plans, but you are right, it is possible for a postponement or deferral, ballooning the interest at some later period, and you really have to work with some lenders—I assume private lenders are going to be lending, unless you use State resources directly—then we are going to have to be working with those lenders that are prepared to postpone the receipt of the interest to some future time.

The term of the loan in the law calls for or basically requires, almost requires a 10-year term, at least, although a 10-year term could be approved by the Secretary under special circumstances, but you still are operating under some severe difficulty in terms of getting lenders to concede to postpone that interest and perhaps somebody else making it up during that period of time.

Senator McGOVERN. Mr. Secretary, my colleague, Senator Pressler, was unable to be here today, but he has a question he submitted in writing and I would like to hand that to you and perhaps you could answer that at your convenience.

Mr. MERCURE. You want this answered for the record?

Senator McGOVERN. Yes. If you could just send us an answer on that, we would appreciate it.

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

QUESTIONS SUBMITTED BY SENATOR LARRY PRESSLER TO MR. MERCURE,
AND ANSWERS THERETO

Questions. I recently learned that the FmHA in South Dakota has exhausted its loan supply and will not receive further funding until later this year. It is obvious that there is great demand for these loans. Could you tell me approximately what the ratio would be, comparing the number of applications that the FmHA processes each year for farm loans, with the number of these loans that are approved?

Could you also tell me approximately how many of these applicants are entering the farm business and how many of these loans are approved?

Answers. In our farm ownership loan program, Farmers Home Administration will process 1,747 and approve 453 loans in fiscal year 1979. This is a ratio of one loan approved for every 3.8 loans processed.

In our farm operating loan program, Farmers Home Administration will process 1,379 and approve 1,016 loans in fiscal year 1979. This is a ratio of one loan approved for every 1.3 loans processed.

Unfortunately, we do not have exact figures on the number of loan applicants entering the farm business. However, we do estimate that about 90 beginning farmers will receive farm ownership loans and about 100 will receive operating loans during fiscal year 1979.

Mr. MERCURE. Thank you very much, Senator. We appreciate the opportunity of being here. We would be happy to answer any questions that you may wish to submit.

Senator MCGOVERN. Thank you.

I might say that Senator Morgan, of North Carolina, is chairing a Small Business Committee this morning and he indicated he would have some written questions, too, Mr. Secretary, and we will submit those to you.

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

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., May 14, 1979.

Hon. ROBERT MORGAN,
U.S. Senate,
Washington, D.C.

DEAR SENATOR MORGAN: This is in response to your letter of April 3, 1979, which contains questions concerning S. 582 "The Farm Entry Assistance Act of 1979." The questions and responses are as follows:

Question. What kind of outreach program has the Department of Agriculture established for the limited resource farmer?

Answer. In 1978 the Department of Agriculture, the Community Services Administration and ACTION sponsored several regional Small Farms Conferences. The purposes of the conferences were to provide a National voice for small, limited resource farmers, to provide the small farmer more direct access to Federal programs, to learn of problems most important to small farmers and to identify needed program improvements. An outgrowth of the conferences is a small farm family assistance projects' effort now underway. State Rural Development Committees and State Farm Committees in cooperation with State Offices of the Community Services Administration and ACTION have developed projects that can provide special assistance to small farmers. We are enclosing copies of several Department issuances that reflect our dedication to assisting small farmers.

In administering the limited resource loan program authorized by the Agricultural Credit Act of 1978, the Farmers Home Administration has advised its field staff to make every effort to reach small farmers through cooperation with other Department agencies at the local and State level, through contacts with farmer organizations, minority and other special interest groups, the news media, other credit institutions and personal contact. We recognize that special efforts are needed to reach those most in need.

Question. What is the possibility of FmHA developing a deferred interest program for limited resource, new entry farmers?

Answer. The Farmers Home Administration has authorized deferment up to the three installments from the date of the note for loans made under its farm loan authorities. Deferments benefit primarily applicants with limited income the first few years of the loan, applicants who require extensive reorganization and beginning farmers who have little equity and need the deferment to help them become established.

Question. What is the possibility of FmHA guaranteeing or insuring contracts for limited resource, new entry farmers?

Answer. The Farmers Home Administration now guarantees and insures loans for new entry farmers. However, as a practice, guaranteed limited resource, low-interest loans are not authorized. Loans are not made to limited resource farmers because the guaranteed interest rates are negotiated between the lender and the applicant and is at the market rate of interest. The limited resource applicant needs the lower interest rate which is available only with insured loans in order to succeed and become established.

Question. In what respects would S. 582 (a) duplicate or (b) complement FmHA new entry, limited resource farmer programs?

Answer. The assistance provided in S. 582 contains a large substantial amount of duplication of authorities already administered by the Farmers Home Administration. The Farmers Home Administration, particularly since enactment of the Agricultural Credit Act of 1978, is able to assist a wide range of not larger than family-sized and other farming operations. Regular interest rate loans are provided to applicants who can pay the higher interest rate but cannot obtain their total credit needs from other long term lending sources. Lower interest rate operating and farm ownership loans can be made to applicants who meet the eligibility requirements but due to low income cannot pay the regular interest rate. Applicants for this type of assistance are considered "limited resource applicants" and may include young or beginning farmers and those facing such problems as limited managerial ability, limited education and underdeveloped farms. The lower interest rate can be coupled with deferred payment during the first years of the loan until production is increased and balloon payment at 20 to 30 years to make the installments smaller to permit the objectives of the loan to be reached. The biggest deterrent to the Farmers Home Administration present programs are limited funds and personnel.

Question. You stated that your limited resource program has attracted farmer entrants at an average age of 35. What is the median age of these participants? Why isn't this program attracting those in their early 20's?

Answer. We do not have a figure on the median age of all farmers receiving assistance but the average age of recipients of farm ownership loans for fiscal year 1978 was 34. Our programs are available to eligible applicants of all ages. This includes many applicants in their early twenties. The cost of getting started in farming has increased. The increase in loan limits authorized by the Congress last year will enable us to assist more young applicants to become established in farming.

Question. What is the possibility of FmHA developing, in each State, a Citizens Advisory Committee which would advise FmHA on problems in attracting and servicing new, limited resource entry farmers?

Answer. The Farmers Home Administration seeks the advice and services of local organizations, news media and individuals in advising the public of availability of its loan services and how to reach those in need of these services, including limited resource farmers. Rural Development Committees and Small Farm Committees are now being used.

Question. There is strong evidence which indicates that the number of farms is related to the viability of small towns and cities. Likewise, a rural development strategy which links both a strong agriculture with healthy rural communities would likely pay significant dividends in increased Federal revenues (through taxes). Would this not provide adequate justification for an aggressive new entry, limited farmer resource program such as that proposed by S. 582?

Answer. The intent of S. 582 is a step in the right direction in developing strong healthy rural communities. We believe, however, that the Farmers Home Administration with its unique delivery system and present authorities goes much further than the proposed S. 582. Water and sewer system loans are available to farmers and to the communities in which they live. Loans are also made for fire stations and other public facilities to strengthen and stabilize communities. Business and industry loans are available to provide additional employment. As stated earlier, Farmers Home Administration is restrained in reaching more people by limited funds and personnel.

An additional concern with S. 582 is that it adds another layer for the borrower and lender to deal with. The many layers under the best of conditions could create considerable red tape for the applicant and in many cases could discourage the applicant from attempting to take advantage of the program.

Another concern with S. 582 is that the success of the program hinges strongly on each State's interest and participation in the program. Some States probably would not participate or take an active interest in the program. Farmers in those States would be denied its benefits.

I appreciate the opportunity to respond to you in this manner.

Sincerely,

ALEX P. MERCURE,
Assistant Secretary.

Senator McGovern. Congressman Nolan, who was planning to be here to introduce Mr. Wenstrom, is unable to be with us, so at this point, in accordance with the agenda, I will call Mr. Wenstrom to testify. He is the legislative affairs director for communicating for agriculture Elbow Lake, Minn.

We are happy to welcome you. You may proceed in any way you see fit.

STATEMENT OF GENE WENSTROM, LEGISLATIVE AFFAIRS DIRECTOR FOR COMMUNICATING FOR AGRICULTURE, ELBOW LAKE, MINN.

Mr. WENSTROM. Thank you, Mr. Chairman. My name is Gene Wenstrom and I live in Elbow Lake, Minn. I am an owner-operator of a family farm. I served in the Minnesota Legislature from 1974 to 1978. During that time we devised a program called the family farm security program.

Today I appear before you in the position of legislative affairs director for communicating for agriculture, a not-for-profit group with national headquarters in Fergus Falls, Minn. CA is a rural lobby group with membership consisting of farmers and agribusiness people in more than 30 States. CA became national in 1977 and is now considered by some as the fastest growing rural organization in America. CA is not involved in marketing or pricing of farm products, but, rather, has some very definite objectives on preserving the rural way of life in the area of health, education, family farms, and small business.

CA is a strong supporter of family farms security bill, such as the Senate's Farm Entry Assistance Act. I have testified for CA on behalf of similar bills in North Dakota, Montana, and Iowa since the first of the year. In Iowa a farm security bill passed the House last month. In Colorado CA has been assured there will be hearings on a similar bill this summer.

The family farm security program is now 2 years old in Minnesota and to date it has assisted about 120 farmers in buying approximately 20,000 acres of Minnesota farmland, with a total loan amount of \$18 million. The average age of the applicant is 29. However, they have ranged from age 18 to 54. The Minnesota program is especially appealing as we amended the bill in 1977 to allow forgiveness of State income tax on interest if it is a seller-sponsored loan to a qualified farmer. This has proven to be a great asset, as the seller can afford to give the young farmer a better price than if he were selling to a non-qualified buyer.

In CA's March survey of its members in Indiana and Wisconsin, one of the questions asked was: Would you favor a program where State government would make guarantees on bank and seller-sponsored loans and defer interest payments so eligible young farmers can buy farmland? Eighty-two percent answered yes. On the question of forgiveness of State income tax on interest received on a seller-sponsored loan to a qualified buyer, the answer was an overwhelming yes, by 86 percent.

CA believes the Farm Entry Assistance Act should not require the applicant to seek FmHA loans first or require a FmHA turndown. CA's prime objection to a FmHA turndown is the amount of time involved before a young person could actually begin to farm.

Second, rural Americans don't like to beg for anything. We are proud people. Why should the applicant be labeled as a "turndown" or "rejection" in order to apply for the Farm Entry Assistance Act? Furthermore, our program in Minnesota requires very little State funds, other than administration, which is through the commissioner of agriculture's office. Unlike FmHA, it does not require large appropriations. The money is secured either through financial institutions or by seller-sponsored contract for deed.

The reason CA feels so strongly about the Farm Entry Assistance Act is because it enables young people an opportunity that is not otherwise available to them today.

I would just like to take a brief amount of time to read a letter to you that was sent to CA from a young farmer in North Dakota.

DEAR SIR: For the past several months I have been reading bits of information about the "Farm Security Program" which I believe is established in Minnesota. I am presently 21 years old and attending the University of North Dakota, Williston Branch, where I am majoring in sales and management, with a marketing minor.

I am presently engaged in a farming operation where I lease only the land I presently farm.

One of my ultimate goals is to purchase a way of life in farming, but presently we (young farmers) have more factors working against us than for us.

I hope in just the words I wrote above, relays my feelings that something more must be done.

I am very concerned with what is going to happen to the rural development of North Dakota through the young adult farmers like myself.

Please feel free to contact me for any help I may pass along for more support on agricultural bills relating to this area of concern.

It is signed

STEVEN JENSEN.

CA frequently receives letters like this from people in rural America. The scales must be tipped in favor of these people. Since 1977 over 80,000 farms have disappeared.¹ This could well represent over a quarter of a million rural Americans. Those people are needed in our rural society. Those people are needed by the small family business, the banker, the lawyer, the implement dealer and our churches and schools. We all need to work together to preserve the family farm and family business. While the farmland itself may not disappear, without some form of help, like Minnesota's Family Farm Security Act, CA and I fear that the future of young families in rural American will continue to disappear and the family farm and small town could well become a documentary such as "The Little House on the Prairie."

That concludes my testimony.

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

Did I understand you to say that there is a deferral of the State income tax to people participating in the program in Minnesota?

Mr. WENSTROM. If a person sells to a qualified young farmer, they don't pay any Minnesota State income tax on the interest derived from the sale of that farm. There is a 4-percent interest deferment that the State pays to the young farmer.

For example, if I would have a loan at 10 percent, the State would pay 4 percent. If I had a loan at 9 percent, they would still only pay 4 percent. That is up to the contract or the deed or what they can work out.

¹Farms are now based on a new definition by USDA—any establishment from which \$1,000, or more, of farm products are sold per year.

Senator McGOVERN. Is that the principal impact on the State budget, the picking up of what represents an interest subsidy?

Mr. WENSTROM. That is right. The interest subsidy or the debt, as we call it, because it really isn't a subsidy because at the end of 10 years the young farmer is expected to pay that back.

Senator McGOVERN. The entire accumulated difference between the market rate and the rate to him?

Mr. WENSTROM. Right.

Senator McGOVERN. He has to pay back?

Mr. WENSTROM. He picks up the 4 percent and pays it back. There is a mechanism that if that would cause a hardship he can have that time extended, but the feeling of those of us in the legislature is that 10 years of farming should enable him to get on his feet.

Senator McGOVERN. That part he pays back is a debt he owes to the State of Minnesota?

Mr. WENSTROM. That is correct.

Senator McGOVERN. The commercial lender gets his full interest payment as the program moves along?

Mr. WENSTROM. That is right, and we found it has been a very, very good program. The problem, I think, with the FmHA program is it does not have the interest or no income tax for the seller and you see what the practical effect in Minnesota has been is that these people have been going to their tax advisers and they have been able to figure out, hey, I can sell this cheaper or less expensive to a young farmer than I can to an established farmer, so it is putting a lot of land in the program.

Senator McGOVERN. This interest deferral you talk about is not in any case a total interest obligation; it is just on the difference between the market rate and the rate to the farm. There is no case in Minnesota where you say to a farmer don't pay any interest at all over the next 5 to 10 years?

Mr. WENSTROM. No.

Senator McGOVERN. Thank you very much for your testimony.

Mr. WENSTROM. Thank you. We appreciate the chance to testify.

Senator McGOVERN. Our next witness is Dr. Rollin Dennistoun, who has already been introduced by Senator Boschwitz.

You may proceed in any way you see fit, Dr. Dennistoun.

STATEMENT OF DR. ROLLIN DENNISTOUN, DEPUTY COMMISSIONER OF AGRICULTURE, MINNESOTA DEPARTMENT OF AGRICULTURE, ST. PAUL, MINN.

Dr. DENNISTOUN. Mr. Chairman, you have received a copy of our statement, but very briefly I want to express my appreciation to you and your committee for the opportunity to appear here to discuss the Minnesota family farm security program with you and also make a few comments on Senate bill 582.¹

It has been indicated that the Minnesota Family Farm Security Act was enacted in 1976, and it has been in progress since then. In my prepared statement I indicate that the first loan was made approximately 25 months ago, on March 10, 1977. Since that time, as of March 31,

¹ See p. 52 for the prepared statement of Dr. Dennistoun.

there have been 115 loans approved. The dollar value or dollar range of the loans has been from \$18,000 to \$430,000, and we have the other information in our statement with regard to the entire program.

Senator McGOVERN. My figure of 86 is out of date then?

Dr. DENNISTOUN. Yes; it is, Senator. That was approximately, I think, in December that it was 86.

Senator McGOVERN. Now you have qualified 115?

Dr. DENNISTOUN. That is correct. I might say that there is usually five to six sometimes eight loans approved on a monthly basis. The council meets on a monthly basis, makes their recommendations to the commissioner and generally it is somewhere in that number.

Senator McGOVERN. Is that a statewide council which makes these evaluations?

Dr. DENNISTOUN. Yes, it is, Mr. Chairman. I might point out the membership on the council. There are two officers from a commercial lending institution, one dairy farmer, one livestock farmer, which would be beef, hogs, or a combination, one cash grain farmer, one officer from a farm credit association, and one agricultural economist.

At the present time we have one agricultural teacher on our Minnesota council, so we do have a diversified membership and they come from various areas of the State. Again we are trying to get a cross-section on the council to review the applications and make recommendations.

Senator McGOVERN. You have no apparatus at the council level comparable to the way FmHA and ASC offices function?

Dr. DENNISTOUN. No; we do not, Mr. Chairman. This is strictly on the State level.

As has been pointed out, one of the things that really helped our program was the exemption from Minnesota income tax of the interest on the seller sponsored loans. Since then a great number of former owners, as has been indicated, have seen fit to sell to beginning farm people because they do get that benefit in their Minnesota income tax program.

There are a number of requirements which are also listed in the law, and I believe you have received a copy of that.

Senator McGOVERN. On that matter of the income tax exemption to the seller, do you have any idea what impact that has on the State budget?

I realize that shows up as an indirect cost, but there would be a revenue loss there, and I was wondering if you have any rough estimate of what we are talking about, or could you get that for us?

Dr. DENNISTOUN. We could get that for you, Mr. Chairman. Offhand, it has been relatively minimal up to this point because the total amount of the loans to date is in the neighborhood of \$17 to \$18 million and of course most of those have come during the last year or year and a half of the program because it took us 6 to 8 months to get the program off the ground in sufficient numbers to accumulate this.

Senator McGOVERN. We don't have a State income tax in South Dakota, so presumably if we were to do the same kind of thing in our State, we would have to figure out some other way for a direct offset, other than relying on an income tax concession.

Dr. DENNISTOUN. That would be correct, unless there would be some route that you could take other than that approach. We have found, as we look at the farm management principles relating to these loans,

that historically, you know, investment in land has ranked about fourth in importance to investing in operating costs on a recommended program, such as soil conservation, tillage methods and other things and then investment in livestock and livestock facilities.

I might say that the loans that have been issued have been primarily issued to individuals in the livestock area. The primary enterprise for the loans, 93 of the loans have been for dairy operations, 22 have been for beef operations, 43 have been for hog operations; poultry is only 1 and crops only 10 out of the 115 that they have made to date, so we are at least at this point making loans where supposedly the return to capital is going to be the greatest at the present time. On the other hand, with the increases in land prices, that has changed this picture somewhat because as long as that goes on, land is a good capital investment and a return.

I would say that we like very much the idea that this is vested in the Minnesota Department of Agriculture, where the commissioner appoints the council members on a staggered basis. One of the questions that we have about Senate bill 582, Mr. Chairman, is that the appointment of the council is to be made by the Governor and no indication as to whether or not they would all be replaced or should be changed, because in many States now we have coterminus laws. We would feel that this would be detrimental, frankly, to a program.

Senator McGOVERN. I think that is a valid point and one we ought to look at very carefully. One of the purposes of a hearing like this is to sharpen the legislation, and I think that is something Senator Nelson and I and others would want to think about very carefully. It may well be some modifications are in order.

Dr. DENNISTOUN. Along that same line, we feel very strongly in Minnesota that by having the commissioner make the appointment we are even closer to the appropriate people to serve on that committee than is the Governor's office in the State and we see that as another area that we would suggest that the committee should look at very strongly.

Senator McGOVERN. In some States the secretary of agriculture is appointed by the Governor, so you don't get away from the lack of tenure simply by giving the secretary the authority to make these appointments.

Dr. DENNISTOUN. Mr. Chairman, that is true in Minnesota, but at the same time the terms are staggered so that this year, for example, the commissioner could have appointed two new people to the council.

Senator McGOVERN. There, again, in our State they are not staggered. The Governor is elected and the new Governor names the secretary of agriculture and when he leaves office, his successor picks another one.

Dr. DENNISTOUN. What I meant was the council members terms are staggered so that this year even though the commissioner of agriculture in Minnesota did change, he only had the opportunity to appoint two.

Senator McGOVERN. I see. I missed your point.

Dr. DENNISTOUN. After reviewing everything, he determined to continue the two people that were on the council and make no new appointments this year because he felt that they had been doing a

good job, and it was appropriate, with the newness of the program, to continue the continuity there, so that is an area we would suggest you should consider or that should be considered before this committee.

I have a couple other areas, also, Mr. Chairman. Section 302(a) of your proposed legislation refers to applicants entering farming on a full-time basis for the first time during the 10 years prior to the date of application. I guess we are not clear as to whether this means a person that has been renting and now wants to go into ownership of property would not be eligible or would be eligible. I think it is probably a matter of interpretation, but when you say "entering farming for the first time during the 10 years prior to the date of application", it raised a question to us as we reviewed the proposed legislation because I don't think it is the intent of the committee to exclude people who have been renting land to go into ownership.

Senator McGOVERN. It certainly is not my intent, but if the legislation needs to be clarified, that again is something we can look at.

Dr. DENNISTOUN. That is one point that we addressed and had a question on as we reviewed the legislation. The question was asked or the comment was made that we should talk a little bit about FmHA and we feel that Minnesota's law has a significant advantage over FmHA because of the guarantee being on 10 percent of the funds for the loan program. In other words, Minnesota appropriated \$10 million for this program, plus interest money. We can guarantee up to \$100 million for farm ownership under this program. To date we are between \$17 and \$18 million. FmHA has to go on a dollar-for-dollar basis, and in checking with our FmHA office, they have indicated that they have a backlog where they could commit all of their loans for the balance of this year already and still not catch up, and I guess, as I looked and worked with FmHA in the past years when I was in vocational agriculture and with the university, this has been a traditional problem with FmHA in not having sufficient funds because they are on, essentially, a one-to-one basis.

Another thing that the Minnesota program has done is, particularly with the interest change, we now have 88 of 115 loans as seller sponsored loans, where the capital is carried, I might say, by the former owners directly to the new purchaser, rather than through a lending agency of some type, whether it is bank or PCA or FmHA or Farm Credit Association or whatever it might be, so those are some of the things that we see about the Minnesota program, Mr. Chairman, and perhaps the best thing is to try to respond to some of your questions at this time.

Senator McGOVERN. Thank you very much. You have been very helpful, both in pointing up some of the possible ambiguities in S. 582 and also filling us in on elements of the Minnesota program.

In addition to the questions I have interjected as you went along, I may have some more that I would like to submit in writing as we move on this legislation, but I will defer any further questions.

Senator Stewart has come in. Did you have any questions for Dr. Dennistoun, Senator?

Senator STEWART. Not at this point, but I might later on. As a matter of fact, I probably will.

Dr. DENNISTOUN. We will be glad to answer any of your questions at any time.

Senator McGOVERN. Thank you very much. We appreciate the fact there is a model program in Minnesota to look at, and I am sure we will be following up with additional questions as the legislation moves along.

Dr. DENNISTOUN. We think it is a good program and we hope the development on the Federal level will accommodate our program.

Senator McGOVERN. Thank you very much.

Our next witness is the North Dakota Commissioner of Agriculture, Myron Just.

I think you have been before this committee before on a number of occasions. We are happy to welcome you again this morning. Mr. Just your full statement will be in the record, please proceed.¹

**STATEMENT OF MYRON JUST, COMMISSIONER OF AGRICULTURE,
NORTH DAKOTA DEPARTMENT OF AGRICULTURE, BISMARCK,
N. DAK.**

Mr. JUST. Thank you, Mr. Chairman. I really appreciate the opportunity to testify before the joint hearings on the Small Business and Agriculture Committees this morning on what I think is an innovative piece of legislation that is long overdue and I say this particularly because as someone who is farming in North Dakota now and was provided that opportunity to farm because society provided a Homestead Act 100-and-some years ago, provided a Farmers Home Administration that assisted me, but I think society needs new approaches now to assure that young people in this generation receive the same opportunity that their predecessors were afforded, and I think that is extremely important. So I am pleased to be here in support of the Family Farm Entry Act. I believe that this program provides desirable flexibility so that each State could initiate financing beginning farmers, and I think that is a departure from the limited resources program that Mr. Mercure spoke of. I think it is a very comprehensive approach to the family farm entry problem. It provides for Federal and State coordination, which I think is, again, a departure from the limited resource program that FmHA now and has which is inadequate to meet the needs that we have right now.

It is extremely important that programs of this nature are put into effect immediately. As you well know, we have seen the requirements to enter farming, for land and capital, take an enormous jump in requirements and of course this really works against anyone trying to enter that business with very limited resources. For example, North Dakota has lost about half of her farmers since the 1930's. One of the reasons for this is that it has been extremely difficult in the past decade for new farmers to enter farming. As North Dakota farmers quit or retired, their farms were taken over by larger neighbors instead of new farmers.

A study of land sales in 1977 conducted by North Dakota State University showed that about 3 percent of the farm titles in North Dakota were transferred that year. That means about 1,200 farms. Sixty-five percent of those 1,200 farms, or 780 of them, representing 66 percent of the total acreage sold, were purchased for expansion by

¹ See p. 55 for the prepared statement of Mr. Just.

someone who already owned land. Another 20 percent of those sales were to nonfarmers, meaning professionals, businessmen, city workers and others. That left only 15 percent of those farms available to new, beginning farmers.

Senator McGOVERN. What percentage went to nonfarmers?

Mr. JUST. About 20 percent.

Senator McGOVERN. These are people who don't want to go into farming, but who buy the land?

Mr. JUST. Yes; as an investment, a hedge against inflation.

Senator McGOVERN. Do you find that is a source of considerable resentment among bona fide farmers who want to operate that land?

Mr. JUST. Yes; very much so.

Senator McGOVERN. I had an interesting experience several years ago. I had the feeling that maybe as a member of this committee, and also representing a State like South Dakota, which is such a predominantly farm State, that it might give me a better feeling of what problems farmers have if I actually owned a small farm in the State. One became available near Mitchell, where I live, and I made some inquiry about it. I found that far from helping me with my constituents, there would have been great resentment if I had purchased that farm because there were a lot of young people that wanted to live on it and wanted to own it, if they could get the credit, so I backed away from it rather than get into trouble with potential farm owners. Two doctors bought it and they bought it for investment purposes. But I think that is the problem, that when these farms come on the market, many times they are picked up by doctors and lawyers and others. There is nothing wrong with that, except that it does deprive the young farmer who wants to own that farm and live on it and operate it. I think for one thing the doctors didn't have to run for office, but the tax laws also perpetuate that. Land is a good hedge against inflation.

Mr. JUST. Ten percent of the farm units purchased in 1977, with an average size of 465 acres, were purchased to be used as whole farm units. The remaining 90 percent were added on as expansion to existing farms.

These figures show that steps need to be taken to make farmland available to beginning farmers if we want to halt the loss in farm numbers.

Why should we be concerned? In our economy, I think it is interesting that we report housing starts as a measure of economic health, and yet farming stops or the lack of farming starts show ill health in the rural economy, and has for 30 or 40 years.

North Dakota is somewhat unique in that on July 18, 1919, it opened its own bank, the Bank of North Dakota. It was the State's answer to its farmers who felt they were being taken advantage of by out-of-State interests in financing their operations. Hence, the Bank of North Dakota was created for the purpose of encouraging and promoting agriculture, commerce and industry. That bank, in that 60-year period, has grown to be a \$500 million dollar bank and is a partner with every bank in the State of North Dakota through operating loan assistance. From its inception the Bank of North Dakota has not entered into competition with other banks, but cooperates with and assists them in developing and coordinating financial services needed by the citizens of the State. The Bank of

North Dakota has grown to a highly respected institution in the United States. It ranks No. 40 in agricultural loans in the Nation. Its activities are supervised by the industrial commission, which is a board of directors made up of the Governor, the attorney general and myself, as commissioner of agriculture.

On July 1 of last year, 1978, the Bank of North Dakota initiated a new program—the beginning farmers' program, which is a combined effort of the Bank of North Dakota and the Farmers Home Administration to assist beginning farmers in purchasing farmland. By joining a statewide network of Farmers Home Administration county supervisors and a centrally located Bank of North Dakota staff, along with Bank of North Dakota and Farmers Home Administration funds, many farmers are able to receive real estate financing not otherwise possible because of the reduced interest rate made available.

FmHA would be somewhat restricted. In spite of the increase on their limits in recent years, they are still strapped for funds in most cases in terms of making adequate funds available for either farm purchases or farm operation loans.

North Dakota law allows the Bank of North Dakota to make loans secured by a first mortgage on farm real estate provided the loan does not exceed 50 percent of the appraised value, and the recently concluded North Dakota legislative session raised that percentage to 65 percent of the appraised value effective July 1, 1979. FmHA instructions allow second mortgage loans when another lender, such as the Bank of North Dakota, is willing to loan a portion of the funds. Therefore, the Bank of North Dakota and Farmers Home Administration together can lend up to 100 percent of the Farmers Home Administration appraisal of the farm real estate to qualified farmers.

FmHA is responsible for the initial credit inquiries, appraisals, and projected income and expense statements. The application and supplementary information are then forwarded to the Bank of North Dakota for analysis. Once the application is acted on and a commitment is made, the loan awaits a joint funding date. Separate loans are made to the borrower by the Bank of North Dakota and Farmers Home Administration, but the loans are closed on the same day by the same attorney. This saves considerable closing cost to the borrowers and to the bank, as less staff is needed.

The general eligibility guidelines are that the applicant must be an actual farmer who intends to remain a farmer. The applicant must spend over 50 percent of his working time on the farm and receive over 50 percent of net family income from the farming operation. The applicant must have either farm management experience or training. The applicant must be starting in farming or expanding into a large enough unit capable of providing an adequate livelihood for the farm family and for retiring the farm debt.

Terms of the loans may be up to 40 years. The rate to beginning farmers may deviate up to 2 percent below the rate guide for the first 5 years. And I think a number of the loans last year were made at 7 percent interest rate. All rates are set at the loan closing. Principal payments may be deferred the first 2 years upon special request. This is a provision I think is unique because my own experience in entering farming in the mid-1960's was that farming was a bit of a unique enterprise in that if you get into a dairy operation or a hog operation or even grain, it really takes you a year or more to complete a full cycle in order to get anything back to repay a portion of a loan with, and it is easy to get under the gun in the first year.

Take beef cattle, for example. You may buy the cows, but it will be 1½ or 2 years before you are really fully into the production cycle, and considering that in our beginning farmer program, we will allow deferral of principal payment up to 2 years in order for the young farmer to really get his feet on the ground. We believe this program is an excellent example of how a State program can work in cooperation and in harmony with the FmHA program to supplement the Federal resources with State effort and to provide for the most efficient use of personnel and lending services of both the Federal and State agencies.

Since its beginning in July of last year, this program has completed 62 loans, totaling \$3,053,400 to beginning farmers. Another 55 loans, totaling \$2,854,000, have been committed. The average size of the loan is \$50,000. Administrative costs of the program have been only \$7,600, or approximately one-fourth of 1 percent.

Senator McGOVERN. Mr. Just, I have just been reading ahead on your statement here. We are running into a little time problem with these additional witnesses. I wonder if you could take a couple minutes to hit the highlights of the remaining part of your statement, any particular point that you want to underscore, and then we will ask that the whole statement be printed in the record as though read.

Mr. JUST. I think I will just comment on a couple bills passed by the recent session of the North Dakota Legislature, which just adjourned last week. These bills have been signed by Governor Link and they are retroactive to January 1 of this year. They are patterned very similar to the Minnesota legislation, but taking one aspect of that, income tax abatement—

Senator McGOVERN. These are copies of the bills that you have attached to your statement?

Mr. JUST. Yes. I think that is just an excellent approach to a problem because it is a very positive incentive to sellers to sell to give an edge to a beginning farmer.

Senator McGOVERN. Generally you think the Minnesota plan is a good one?

Mr. JUST. Yes; very much so. As a matter of fact, in the last month we have had at our office, the Department of Agriculture, about three calls a day from either young farmers interested in farms or farmers contemplating selling their lands, an inquiry as to what some of the aspects of the bill might be, so we think it is a good bill. I would like to suggest that the Federal Government consider doing that. South Dakota doesn't have an income tax law, but North Dakota and Minnesota have and that makes it most attractive because they have a State income tax, but that would really be a provision, I think, that the Federal Government ought to consider. I think it would pay tremendous rewards to rural America if a Federal income tax abatement to selling farmers that sell to beginning farmers could be considered.

Senator McGOVERN. Another one of the problems is that there is a growing resistance here in the Congress, which I think is understandable, to opening up that Internal Revenue Code to more and more concessions. I mean there are a lot of useful things we could do with the tax code, but I detect a growing resentment in the Congress, particularly in the tax-writing committees, to accepting more concessions of that kind.

Mr. JUST. I can appreciate that, and yet I think it is curious that so much of business really takes advantage of investment credit, capital gains provisions. Industry certainly uses it and we accept that in society as a way to enhance business growth and yet I think one of the really important sectors we need to apply this to is to regenerate new people into the reproductive cycle of agriculture. That is really just an expansion of that that is already available to people in other sectors of business.

Senator McGOVERN. That is a proposal that would not come before this committee. If you try to finance it through the tax laws, it would have to be approved by Ways and Means and the Finance Committee, but it is an idea that is certainly worth considering.

Mr. JUST. We will certainly pursue that with them, and I certainly want to thank you for the opportunity to testify here this morning.

Senator McGOVERN. Thank you.

Senator Stewart?

Senator STEWART. I wanted to ask him one question. Why do you feel like the programs that are presently in place in the U.S. Department of Agriculture are not sufficient to deal with the problem? That is not an antagonistic question; I just want your personal feelings.

Mr. JUST. I don't think it is comprehensive enough. I think psychologically and politically and economically we need a very comprehensive approach to the problem. I think the limited resources portion of the program Mr. Mercure spoke about is still a bandaied approach to the problem. I think with the back to nature movement and a lot of other things going on there is an enormous interest by young people in agriculture. The ability is there, yet the resources aren't made available, and I think that is a very comprehensive approach to that problem and a thrust we really need.

Senator McGOVERN. Thank you, Commissioner Just. We appreciate your testimony.

Our next witness is Bob Mullins of the National Farmers Union.

We also have another member of the Farmers Union here from my State, David Wentzlaff, and I think we will ask you to come up now since you are affiliated with the Farmers Union and we will let you testify as a panel. Proceed with your statements.

STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. MULLINS. I will ask my statement be attached to the main part of the record, and I will summarize it, to save time.

Senator McGOVERN. We would appreciate it if you could just hit the highlights of the things you want to underscore.

Mr. MULLINS. I certainly will.¹

At the outset I want to say that the National Farmers Union fully supports S. 582. At our most recent national convention we adopted a policy position which I will just read the first line of. We call on Congress to enact the Farm Entry Assistance Act, which will provide Federal guarantees for loans, leases and sales of lands to individuals who are qualified to enter farming and ranching, but do not have or cannot acquire the finances to do so.

¹ See p. 64 for the prepared statement of Mr. Mullins.

I was somewhat disappointed, Mr. Chairman, with the attitude of the administration this morning toward S. 582. No. 1, either they don't understand the legislation before the committee or, second, they have some insensitivity to the problem that this legislation tries to address.

Our support of this bill is not a new policy statement for us, as you well know. In June of 1976 we appeared before this committee to support your young farmers homestead bill. We have supported it each time you introduced it in subsequent Congresses. Last year we supported a bill called Family Farm Financing Act which was a model program that we hoped we could get enacted last year as a scaled-down-type program.

You put it very well this morning in that the major problem we are faced with in getting young farmers into agriculture is the initial capital outlay. From March 1971 to February 1, 1979, farm real estate values nationwide increased by 64.2 percent. In South Dakota, your State, in that 4-year period land value alone increased 77.2 percent. In Mr. Nelson's State of Wisconsin, it was even greater—85.9 percent.

Senator McGOVERN. What year?

Mr. MULLINS. That was March 1975 to February 1, 1979. Illinois was 111.1 percent and Indiana 108 percent and Iowa 102 percent.

What this means for the beginning farmer is that in a State such as yours, South Dakota, just in land alone, for an average sized farm in your State he would have to have \$281,000 just to purchase an average sized farm in South Dakota.

Senator McGOVERN. That is just the purchase price and doesn't include the machinery and start up cost?

Mr. MULLINS. No; that doesn't include the machinery. That is just the purchase price. The average farm price in the low Appalachian regions vary from about \$114,000 to about \$579,000 in the Mountain States, so there is a tremendous capital outlay just for land. We would think that the enactment of this legislation would provide a couple other beneficial effects, also, Mr. Chairman. Just using the same timeframe as my other references, the number of farms in the continental United States declined by 6.5 percent, or 161,000 farms in 4 years. An equally disturbing loss is that of our lands in agriculture use, during the same timeframe again, we lost almost 14 million acres of farmland, which is about 3½ million acres a year, so we consider that this legislation would have benefits just beyond helping the—I say “just beyond”—that would be a major step—

Senator McGOVERN. When you say the loss of farmlands, you mean lands taken over for other purposes: Industrial, airports, highways, and things such as that?

Mr. MULLINS. Yes; 3½ million acres a year.

During our convention last month, as you know Secretary Bergland gave a speech there and he called on farm organizations in the country to enter into a national dialog of what the future of American agriculture is, and I have included in my prepared remarks a quote, and I will paraphrase that.

What the Secretary was saying was that we have to act now if we are going to save our system. We think that this legislation before you, a cooperative effort between States and the Federal Government, allowing maximum latitude at the State level to meet State needs, is a way of insuring the perpetuation of that system of agriculture.

We commend you and Senator Nelson for introducing this legislation and we will work with you to better it, if it has to be, and certainly we will work for its passage.

Thank you, Mr. Chairman.

Senator McGOVERN. Thank you, Mr. Mullins, for your testimony. I have appreciated over the years the support of the Farmers Union for the various legislative proposals that have been made to try to deal with this problem of farm entry because it is a very critical and serious problem.

Mr. Wentzlaff, do you want to make your statement now and then maybe we will have joint questions?

Mr. WENTZLAFF. Thank you.

STATEMENT OF DAVID E. WENTZLAFF, DIRECTOR OF LEGISLATIVE SERVICES, SOUTH DAKOTA FARMERS UNION, HURON, S. DAK.

I am Dave Wentzlaff and I am the director of legislative services for the South Dakota Farmers Union. In the State of South Dakota, we are the largest farm organization and represent about 15,000 farm and ranch families.

I do wish to second the remarks made by my colleague from the National Farmers Union and thank you for cosponsoring the Farm Entry Assistance Act.

In the Farmers Union we believe that the family farm is the keystone around which our highly successful agriculture system has developed and we see this Farm Entry Assistance Act as a way to help preserve the family-farm system.

Various problems are faced daily by people trying to get into agriculture, some of which have been covered very thoroughly this morning. One of the problems that South Dakota has been facing, along with other States, has been some control of the agricultural lands by some nonresident aliens from other countries, and South Dakota just passed a law to try and deal with that, to limit them now to 160 acres.

The decline in the number of farms in our State has been substantial. From 1930 to 1974 farms and ranches in South Dakota declined from 83,200 to 43,500. That is according to the South Dakota Crop and Livestock Reporting Service, and that trend continues even up to today, and also the per acre value in our farmlands is continually increasing.

The decline has been caused, in part, by the escalating cost of the land and the increasing amount of land needed to maintain a viable farm unit. There is also the increasing cost of farm equipment and supplies to be considered, coupled with the fact that we have had several years now of subparity prices for our farm commodities in general, and high interest rates.

I am just kind of picking things out of my testimony here.

Senator McGOVERN. We will have the entire statement printed in the record.¹

Mr. WENTZLAFF. In many areas land prices have increased to the point where it is not possible to generate the necessary cash flow to even come close to meeting mortgage payments. Because of these

¹ See p. 72 for the prepared statement of Mr. Wentzlaff.

inflationary spirals, the ownership of land has become more profitable than the production of food from that land. Land is becoming a commodity to be bought and sold as a hedge against inflation and as a capital gains investment, rather than as a basis for food production.

I would like to quote some things from the final report of the North Dakota Family Farm Commission regarding farm credit:

Credit programs geared to the needs of starting farmers must be instituted. These programs should include reduced interest rates, deferment of either interest or principal payment as may be beneficial, and similar devices to reduce the initial burdens of capital investment and payments required of new farmers.

Credit programs, whether sponsored through national or State governments or through private institutions, should contain provisions allowing deferment of payments for a limited period in the event of unusual circumstances. Beginning small business and farm loans should have a subsidized interest rate for an initial 10-year period to make possible the continued movement of qualified persons into the free enterprise system of independent family businesses, whether farm or urban.

In 1975, the South Dakota Farmers Union, Senator, was instrumental in getting the South Dakota Homestead Land Act introduced in our State legislature. This was similar to the Young Farmers Homestead Act introduced on the national level by you and others, patterned after the Saskatchewan land program. I have had an opportunity to make a couple of trips to Saskatchewan, and I know you have been up there also, to check on that program. I have visited with some of the young farmers involved in that program, and they have indicated to me that that was the only way that they could ever have gotten started. They have some of the similar credit problems and land problems up there as we face in the United States. Unfortunately, this concept was turned down on the national level, and also on our State level, even though we had made some important modifications in the bill.

We would like to see South Dakota adopt a program similar to the Minnesota Farm Entry Assistance Act. I believe they call theirs the Family Farm Security Act. We think that is a fair system and we think that your Farm Entry Assistance Act is a way to help our State implement such a program.

In conclusion, I would like to say while we believe that we desperately need this particular bill passed, any program that facilitates the entry of new farmers into agriculture and the establishment of new farm units without an adequate accompanying pricing system for production is doomed to failure. A production and price stabilization program is an absolute necessity if new or existing farm units are to have the economic opportunity to continue in operation, and we will continue to work for that goal, as well, but this is a very fine piece of legislation.

Senator MCGOVERN. Thank you very much. Mr. Wentzlaff, and I also address this question to Mr. Mullins: I recognize because of the budget constraints it is unlikely we are going to be able to move the Young Farmers Homestead Act that we introduced here several years ago. If that were not a problem, if you had an option to go either to the bill that is now pending, S. 582, or the Young Farmers Homestead Act, which do you think would do the most for the farmers?

Mr. WENTZLAFF. Well, Senator, I believe that in terms of what would do the most good, I would favor the Homestead Act myself, but I also realize that it has some problems in terms of salability to

the general public, and I think that this Young Farmer Entry Assistance Act that is being promoted now, and is working in Minnesota, is a concept that is well accepted by almost everyone in the State of Minnesota, and I believe it would be accepted in South Dakota.

Senator McGOVERN. Mr. Mullins, do you think the concept in this Senate bill 582, which puts the management in State hands and the screening procedure in State hands, gives it greater acceptance as far as the farmers and general public are concerned?

Mr. MULLINS. Senator, I went back and read the hearing record on the Farmers Homestead Act and, in visiting with our members across the country, I personally think that if funding were not a problem and a program of greater benefit, I would opt for the young farmers homestead approach, but within the budget restraints and to overcome some of the opposition we had from some farmers, bankers, and some people who saw this as an encroachment on States rights—whatever they are—but I think this would be an acceptable program to those people and I think it has made some major concessions to blunt some of the opposition. It would be acceptable to us.

I can say now that within three States that I know of, outside of South Dakota, North Dakota, and Minnesota, that legislation is pending before their State legislatures to create similar programs. Ohio has one, Texas passed this yesterday, so that there is work out in the State, and they are very interested in having something compatible to go along with the State programs.

Senator McGOVERN. Thank you very much, gentlemen. I appreciate your testimony.

Mr. Ron Taylor is our next witness.

Is Mr. Boehlje here?

I think he is unable to be present, so you may be the final witness.

You are with the National Conference of State Legislatures, from Elizabeth, N.J.?

Mr. TAYLOR. Yes, but from North Carolina. That was a mistake.

Senator McGOVERN. You are also a member of the House of Representatives of North Carolina?

Mr. TAYLOR. That is correct. I would be a small farmer if we passed this piece of legislation.

Senator McGOVERN. We are glad to have you as a final witness this morning. You may proceed in any way you see fit.

STATEMENT OF RON TAYLOR, NORTH CAROLINA STATE REPRESENTATIVE, ON BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Mr. TAYLOR. Thank you very much, Mr. Chairman.

I am here today representing the National Conference of State Legislatures, as chairman of its rural development committee. We welcome this opportunity to appear before you today and present our views on the Family Farm Entry Assistance Act.

There is, I think, some support among the legislatures across the country, and we have tried to contact them and poll some of them on an individual basis, for this bill. Since the organization of the rural development committee, more than 2 years ago, the NCSL has supported changes in the farm credit system to more adequately finance agricultural enterprises, including the family farm. Surveys of the

members of the committee during 1978-79 place the issue of providing assistance to help beginning farmers obtain financing among the top five concerns for this legislative session.

At the same time, we have emphasized that decisions affecting American agriculture should reflect a working partnership of the Federal Government with the States in both the formulation and implementation of policy. The Family Farm Entry Assistance Act, based on the pioneering efforts of the farm security program in the State of Minnesota, is a classic example of such partnership in policymaking.

If I may deviate from my prepared remarks that you have copies of and kind of skim through this a little bit and just mention—

Senator McGOVERN. Fine. If you can hit the highlights, then we will have the entire statement made a part of the record.¹

Mr. TAYLOR. There is a growing interest in this issue around the country, as State legislatures have indicated. Iowa, Massachusetts, Montana, Ohio, and Pennsylvania are considering legislation at this time modeled after the Minnesota Farm Security Act. The language of the Minnesota statute was the basis for the Family Farm Credit Act and an entry in the Council of State Governments' 1978 edition of "Suggested State Legislation." This publication provides bill drafts of legislative topics of current interest and is distributed to Governors, legislators, attorneys general, members of commissions on interstate cooperation, and other State officials.

As you have witnessed here today, North Dakota adopted legislation which provides income tax incentives to landowners who sell or lease land to beginning farmers. An interim study committee on the topic is being considered in Colorado.

Wisconsin's legislators are at the second reading stage in considering an amendment to the State constitution regarding bonding for farm loans to individuals.

Also, hearings may be forthcoming in a few weeks in New York State on efforts to encourage commercial banks to increase their participation in agricultural lending.

There are a number of reasons for this positive reaction for most of our State legislators that we contacted. First of all, because of the flexibility that the bill allows for States to establish the type of program that best fits the climate in their farming and lending communities.

Second, the bill affords the opportunity for participation in those States, such as Iowa, with constitutional limits on their ability to pledge their credit to an individual, association, or corporation.

Third, these hearings and the attendant publicity they generate and the passage of this legislation will heighten the interest in other States to assist those wishing to enter farming.

Fourth, and in a somewhat humorous vein, as suggested by a legislative staff member, this Federal guarantee program could serve to ease the burden of those making what one Arkansas banker calls "guts and feathers" loans to young farmers, where "the primary ingredient for both lender and borrower is guts and if either party is wrong in their basic assumptions, it will take the hide and feathers off of everyone, particularly the lender."

¹ See p. 75 for the prepared statement of Mr. Taylor.

Finally, the program to be established by the act would serve to both supplement and augment existing programs which are to provide financial assistance to farmers, particularly the Farmers Home Administration efforts to provide ownership and operating loans to limited-resource farmers.

I will, if you have any questions, on behalf of the State legislatures around this country, try to answer questions or entertain any personal opinions that you might consider helpful.

Senator McGOVERN. Thank you very much.

Do you have any idea, roughly, what it costs in North Carolina to purchase and start up a viable farming operation?

We were talking here earlier in our part of the country of around one-quarter of a million dollars to buy a farm and to pay the startup cost and to get into operation.

Mr. TAYLOR. Let me say, first of all, in North Carolina our success is our tobacco program and that is primarily our livelihood, the family farm, the number of people involved in it, and to keep a good agriculture community, I think numbers is the most important thing. It is kind of hard to put a figure on what it would cost. I would say you would be in the area of being correct at around one-quarter of a million dollars to get into tobacco farming, but that, again, is only on a tenant basis. I am concerned personally about what we are going to offer as an opportunity for young people to purchase their own farms.

Senator McGOVERN. That is really what I was getting at.

Mr. TAYLOR. I made a note to myself here and I want to be supportive of your legislation here, and before I began to speak I just made this note to myself that it is impossible, in my opinion, in today's market, with today's interest rates, to purchase a farm and go into farming in North Carolina and ever repay the interest, much less the principal, and the thing is you have made statements referring to rich fathers or marrying wealth, and this kind of thing. I am very familiar with that. I am still looking for the rich wife, because I have found it impossible myself to see the opportunity to purchase a farm in North Carolina and pay for it. However, anything that could be done, and I think this legislation attacks this particular problem, would make it easier for someone to get started.

Senator McGOVERN. I would presume, Mr. Taylor, that your fellow legislators around the country would generally look favorably on a formula that gives the State the opportunity to initiate a program of this kind and to screen the applicants and to manage the program with the Federal Government's role primarily being one of a guarantor?

Mr. TAYLOR. We found on a survey of some members of the committee that they would favor this overwhelmingly, and certainly the participation of the State in any program is an asset to the State.

Senator McGOVERN. Thank you very much for being with us today and for your patience in waiting your turn to testify. I appreciate it. Thank you.

Do I understand Mr. Boehlje has come in, professor of agricultural economics, Iowa State University? I guess you will be our final wrapup witness today, Professor Boehlje.

Mr. BOEHLJE. Thank you. I apologize for the delay in transit. Weather was not good.

Senator McGOVERN. Well, I ran into some of the same problems myself today.

What the other witnesses have been doing, in the interest of time, Professor Boehlje, is just underscoring a few of the highlights they want to stress and then we have made the full prepared statement a part of the hearing record.¹

Mr. BOEHLJE. I would be pleased to do that, and as I go through and comment, I might just refer to the specific page number so you can follow along.

Senator McGOVERN. You may proceed as you wish.

**STATEMENT OF MICHAEL BOEHLJE, PROFESSOR OF ECONOMICS,
IOWA STATE UNIVERSITY, AMES, IOWA**

Mr. BOEHLJE. Certainly we in Iowa, as in other States, are concerned about this issue of entry into agriculture, and my comments will be really in three or four phases. One is just a brief comment on the research that has been done; you can review it in more detail as outlined in my written remarks. There will be some comments on barriers to entry, and also comments on policy options.

Senator McGOVERN. I want to just say to you that Senator Culver called over awhile ago to say if you were here he wanted me to tell you that he is chairing another hearing in the Senate today; otherwise he would have been here to present you, and he also wanted me to thank you personally for the assistance your office has provided to him in his office over the years.

Mr. BOEHLJE. Thank you very much. We appreciate that. We are always eager to help in any way we can.

To highlight a couple research studies, one of the things that has occurred historically and continues to occur is about 80 percent of the beginning farmers need to have family assistance to enter the agricultural sector, and in a study done in Indiana, those that were successful had a number of characteristics: One is a good education prior to launching a career; two, a high value on investment as opposed to consumption; three, small families to support; four, more intensive enterprises, particularly hogs; five, larger operations to obtain economies of size, and, six, low equities and large debt which enabled them to control a large amount of assets.

Another study which I would like to highlight quickly indicates that managerial ability is one of the keys to success and that an average manager is going to have a very difficult time in terms of entering the industry.

Let's move from the discussion on research in this area to the discussion on farming opportunities. Opportunities are more numerous relative to the number of farmers available and will continue so through about 1985, according to a study done at Iowa State, but the absolute number of opportunities for beginning farmers is substantially less than it was one or two decades ago.

Senator McGOVERN. It is interesting to me because one of the characteristics you list here is a low equity and a big debt.

Mr. BOEHLJE. That is the characteristic of some that are entering, that is right. I am not suggesting it is a desirable strategy, but it is a necessary strategy.

Senator McGOVERN. But it is a characteristic of some of those that have done well.

¹ See p. 77 for the prepared statement of Professor Boehlje.

Mr. BOEHLJE. That is right, and they have apparently been able to work with their lenders to move that debt to a lower position relative to their equity over time, and so have not had the problems of losses forcing them to exit from the industry.

As I was indicating, the opportunities for entry in relative terms are substantially greater than they have been historically, but, unfortunately those who have no family assistance or do not have a "propertied family," if you will, are in a worse relative position because there is substantial competition for the resources to enter. Those that don't have a "piggy-back" opportunity to go in with their father or other relatives are really in a much more limited situation than they used to be.

I will just quickly comment on the barriers to entry. I think you have already heard discussion of the various barriers.

The capital requirement is the one we always hear about. On page 6, in table 1, we have attempted to estimate the capital requirement for entry. You will notice our requirements are substantially less than some of the requirements that have been proposed. We based our requirements on an estimate of full-time employment in agriculture. We are assuming full time is 2,800 hours of operator and family labor. You will notice we are assuming a full rental type of arrangement. For a dairy-grade A type situation the farmer would have to have control of 120 acres of land, milk approximately 30 cows and total machinery, equipment is needed, livestock, feed and operating capital of about \$68,000 is needed, which is substantially less than the average farm; this person is not acquiring brand new equipment with this type investment. We have had a number of farmers who have looked at these numbers and suggested that if you want to start at a minimum barebones, yet critical mass of resources, these numbers are realistic.

You will note that with a hog farrow-finish operation, the total capital requirement is \$92,000, and hog-beef finishing about \$114,000, cash grain about \$111,000, and wheat, sorghum, beef backgrounding about \$200,000.

Senator McGOVERN. That is above and beyond the land cost?

Mr. BOEHLJE. That is assuming crop share rental on the land. It appears to us given current land prices that it is extremely difficult for a young farmer to buy the land because if he does, he has to commit such a large amount of capital that he has very little left for machinery, equipment, and operating purposes.

Senator McGOVERN. Representative Taylor of North Carolina just left the witness table here and he said in his State there is no way a young farmer on his own resources can borrow the money to buy a farm and then equip it and ever pay it off.

Mr. BOEHLJE. I think it is a fair assessment that with the current price of real estate and farmland it is going to be extremely difficult to do so.

Senator McGOVERN. That tends to be true in places like Iowa.

Mr. BOEHLJE. That is true, and we probably have higher financial requirements for acquiring real estate than in many other States. That is why we encourage most of the farmers we work with to start by renting the land and then using their capital for the machinery and operating capital requirement—fertilizer and chemicals, et cetera.

I might note another barrier we think is extremely important is managerial requirements. The historical procedure for entering agriculture has been the agriculture ladder. We think that this procedure is not particularly applicable now because the individual does not get experience in the area of marketing and finance, which are probably the key things he needs to know to be successful. We also identify the risk as one of the key concerns with respect to the young farmer getting started and some of the proposed legislation is directed at risk which we will comment about later.

And, finally, the barrier of resource control, particular land resource control. One of the things we have a lot of concern about is that we do have in place now policies at the Federal level, including Government income and price-support programs and tax policies which are capitalized into land values which is to the detriment of the beginning family farmer. I think if we are going to look at the question of policy, one of the key questions we might raise is are there policies currently in force we might want to modify so that they do not benefit the larger, wealthier farmer and farm landowner, as opposed to the smaller beginning farmer. We have completed studies at Iowa State that clearly indicate that cost of production indexed price-support programs and parity arguments give benefits primarily to the large farmers as compared to the small farmers, and allow the large farmers to outbid the small farmers, specifically, small low-equity farmers, in the real estate market. Also changes in tax policy recently, specifically estate tax policy, may have the same type impact.

Senator MCGOVERN. It seems to me that is kind of a tough dilemma though, Professor Boehlje, because if you didn't have the price-support structure, how are these young farmers going to make it in terms of their income? It is not only the startup cost, but they have to have a fairly high income to liquidate that operation.

Mr. BOEHLJE. But what you want to do is make sure that you don't have a price-support program that is capitalized into the land value, and that is what has happened historically with all price-support programs. One way to reduce that dilemma is to have a tiered price-support program or, as we have tried in the past, some limitation on the potential benefits from a price-support program.

What happens is that the larger farmer gets more benefits and he can capitalize that into the land value. He is more efficient and can bid more for the land; that is the price-support program provides a guaranteed cash flow which can help him buy the land away from the smaller, beginning farmer. I do think there are ways to target the benefits of such programs to farmers of different characteristics.

Senator MCGOVERN. In other words, family farm limitation steps?

Mr. BOEHLJE. That is right.

Commenting on policy options very briefly, we suggest considering some type of tax incentive mechanism. We use tax incentives in many other ways and it seems to me if we think this is a key issue, we might consider it here as well. I am thinking of a tax incentive for retiring farmers who rent their land to qualified beginning farmers. The incentive might be in the form of a partial tax rebate or some type of reduced taxation on that rental income. It is not all that different from the Minnesota plan. Such a plan has the potential to encourage older farmers to rent to a beginning farmer at a lower rate than they might to a larger farmer in the community and still receive the same after-tax income.

We also would like to see such programs encourage long-term leases. One of the points we make earlier in the paper, is that the short-term rental arrangement increases risk substantially because the farmer may lose the lease next year, and it also does not allow beginning farmers to intensify their operations by adding livestock which is the major way of using their labor supply to increase income. The beginning farmer has, typically, a lot of labor and limited capital, and we would like to have his labor utilized as efficiently as possible. One way to do it is by adding livestock enterprises, but if he is on a short-term lease, the beginning farmer is hesitant to add livestock facilities to the farm because he is not sure he will have an opportunity to use them for their entire life.

We propose a similar tax incentive in selling farms from established farmers wanting to retire to qualified beginning farmers. Here we are proposing a tax incentive related to capital gains; the calculations suggest it would be possible for a retired farmer to sell to qualified young farmers and receive the same after-tax benefits if he did not have to report the gain on that sale as a capital gain; the retired farmer could sell the farm at a 10-percent lower price to the beginning farmer and still have the same after-tax proceeds. There would be an opportunity for the beginning farmer to buy at a lower price, thus reducing his risk, and the retiring farmer comes out with the same after-tax income.

With respect to management experience, we think there is an opportunity for using tax credit programs much like those currently used to encourage employment, but to encourage employment of qualified young farmers to apprentice with established farmers by providing a tax incentive to the employer. Giving the beginning farmer a resource base does not guarantee success. We need to provide him the management expertise, as well, and that may involve some type of incentive program to give him an opportunity to obtain the management expertise.

I make comments on subsidized credit programs on page 12. My personal opinion is a Government guarantee program is preferable to many of the direct-subsidy credit programs that are available. I think this allows the private sector the opportunity to provide assistance, and uses the expertise of the private sector to make judgments about who will and who will not qualify.

In a study we have done at Iowa State University, an opportunity for off-farm employment is the key to entry into agriculture. Off-farm employment diversifies the use of labor, guarantees or increases the possibility of a reasonable income stream for the family living and allows the beginning farmer to reinvest the earnings from the farm back into the farm. There is some direct benefit, as well as indirect benefit, in programs which increase the employment opportunities for farmers and their families in rural communities.

The one program I think has as much potential as any in helping beginning farmers is some type of risk-sharing program, possibly in the form of a low-cost insurance program.

One of the problems, and probably the key problem the beginning farmer has in obtaining control of the capital and land resources is that the conventional commercial lender and landlord will not rent or lend to him simply because of the high risk, and if there was some way to reduce that risk, the private sector may be very willing to service beginning farmers.

What we are suggesting is some type of subsidized insurance program with the lender and landlord as cobeneficiaries of the insurance proceeds. This, I think, could be part of a program currently being discussed at the Federal level of all-risk insurance.

We think this particular proposal would encourage the landlord, as well as the private sector lender to provide the necessary capital and the necessary land base to the beginning farmer, because if he was not able to make the payments, the landlord or lender would receive some compensation through the insurance program.

I might make one final comment, and that is we should not just look at one of the barriers that are keeping the beginning farmers from starting in agriculture. We have identified at least four barriers and a single program may not reduce all four barriers and increase the probability of success of beginning farmers. Specifically, that is one concern we have about programs that are exclusively oriented to the credit side of the resource picture for family farmers.

Senator McGOVERN. Would that be your principal concern about the legislation that is pending here, S. 582, the bill by Senator Nelson, me, and others, that it does deal only with the credit?

Mr. BOEHLJE. Quite frankly, yes. It seems to me that the proposed legislation looks at one resource and yet family farmers face problems in terms of other barriers. We do need to have some type of integrated program to reduce the risk and increase the managerial capability or competence and increase their access to resources, not only the credit resources, but also the land resources directly through some type of potential subsidy program or guarantee program.

Senator McGOVERN. There is nothing in the legislation that would prevent the States screening committee from dealing with these other factors as a condition of approving the farm entry?

Mr. BOEHLJE. That is right, but my concern is that historically our emphasis in this area has been almost exclusively in the credit area. I think it would be extremely important to encourage States to be more innovative in terms of the programs they might develop. I feel there might be an opportunity, since we are now in the process of reviewing the entire insurance program available to farmers, to interface that program with an entry program of subsidized all-risk, including price, low cost insurance to beginning farmers at different rates than a commercial farmer, with the landlord and the other people who provided resources to him being a cobeneficiary on the policy to reduce their risk.

Senator McGOVERN. Thank you very much, professor, for your testimony. That has been very helpful. I appreciate the way you summarized it and commented on the overall problem young farmers are facing. I think that is going to be a valuable part of our hearing record. Thank you very much.

The subcommittee is adjourned.

[Whereupon, at 12:05 p.m., the subcommittee adjourned, subject to call of the Chair.]

APPENDIX

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

I am pleased to convene such an impressive number of witnesses on a subject that in my judgment strikes at the very heart of the farm credit issue: That of developing a plan to fund beginning farmers who want to enter farming as a life time career but who are not able through inheritance or a provident marriage to produce the nearly quarter of a million dollars it now takes to acquire and maintain an economic unit capable of producing sufficient income to make a living in today's complicated agricultural scene.

The average age of American farmers is now about 55 years. Anyone with long term vision should view this situation with alarm and concern. Though we know that farm numbers are dwindling and we publicly beat our breasts mightily in dismay, too little emphasis is given to the question of where the next generation of American farmers will come from.

I can say for myself that I have had a long association with this question. Several years ago with my colleague Senator Nelson and seventeen other Members of the Senate, I introduced the Young Farmers Homestead Act, a bill resembling an agricultural program started in Canada some years ago. Though viewed with enthusiasm by many farm groups including the National Farmers Union, it failed to get support from either the Ford administration or the early Carter administration, principally because it called for a commitment of money that neither administration was willing to make. Personally, I view this objection as shortsighted—I still believe that this legislation is the best answer to the problem that has been yet devised. However, if the Federal Government is not willing to commit money, I am willing to seek alternatives that in some way will make inroads on a social question that continues to plague us.

About the time I was seeking support for the Young Farmers Homestead Act, the State legislature in Minnesota enacted legislation which—rather than using money—used the full faith and credit guarantees of that State in committing itself to a program that would start a young farmer out by guaranteeing financial outlays from the private sector and in later years recouping these outlays, with interest from the young farmer. Modest though the proposal was, it has been successful in starting 86 young farmers over a period of three years.

The legislation we are considering today models itself after the Minnesota plan insofar as it delegates to the States the originating process of developing a plan for young farmers. After this plan is developed and approved by the Secretary of Agriculture, the State would then be eligible to screen applicants of proven ability who in turn could present a land acquisition plan to the State board, who would then in turn be authorized to provide Federal guarantees to private lenders for the original land purchase.

Perhaps the most important feature of this legislation is the provision that restricts land acquisitions to installment purchases such as contracts for deed. This legal form of land acquisition involves the least amount of initial cash outlay, gives the seller a tax break on I.R.S. regulations with respect to capital gains, and is easier to foreclose in the event of default than a conventional warranty deed secured by a real estate mortgage.

The plan holds forth the additional advantage of not enlarging the size of the Federal Government and involving the States in the monitoring of the young farmer, as well as seeing that the debt is serviced in accordance with the terms of the contract.

It is my understanding that there is initial interest in this proposal at the Department of Agriculture. We will learn more about that through the testimony of Assistant Secretary Alex Mercure or his designate.

In conclusion, let me offer a word of congratulations to Senator Nelson of Wisconsin. Though not a member of the Agriculture Committee, he is the Chairman of the Senate Small Business Committee and he has had a long and abiding interest in American agriculture. Long a proponent of effective dairy legislation,

he has also involved his committee in questions of the 160-acre limitation as well as the survival of the family farm in America. He and I as well as our staffs have worked closely on the legislation before us and it is a pleasure to welcome him to this committee for the purpose of this joint hearing on the Family Farm Entry bill.

STATEMENT OF HON. GAYLORD NELSON, A U.S. SENATOR FROM WISCONSIN

These hearings today represent the second phase of the Senate Select Committee on Small Business, investigation into the problems of entry into family farming. The first hearings were held in Eau Claire, Wisconsin in December of 1978. After those hearings, I joined with Senator McGovern and eleven other Senators in introducing S. 582, the Farm Entry Assistance Act. That bill was referred to the Senate Agriculture Committee. The committee's subcommittee on Agricultural Credit and Rural Electrification, chaired by Senator Zorinsky, agreed with my request that the Small Business Committee be allowed to participate in the hearings the subcommittee planned to hold on the bill. I am pleased that today's hearings are the realization of this effort to coordinate both our committees continuing concern with the problem of entry into farming.

The hearings in Eau Claire clearly demonstrated the need to provide ways for people to get started in farming. In the last forty years, the number of farms in this country has declined from 6.8 to roughly 2.5 million farms. By the year 2000, agricultural experts expect that there will be only 1 million farms, if current trends continue. In a recent and alarming report, the Federal Reserve Bank of Kansas City stated that in 1956, 60 percent of all land sales were for new starts, but that by 1976, only 20-25 percent were. That means that more and more land is being sold to farmers expanding their operations, to developers and speculators, and to non-farming investors. Unless a better balance between new starts, expansion, development, and investment is achieved, we can only look forward to the continued decline of the family farm. With the cost of a typical family farm now between \$200,000 and \$600,000, though, where are we going to find the family farmers of tomorrow?

These data are persuasive enough, but the Eau Claire hearings revealed more than numbers. Farmers and young people hopeful of getting started in farming spoke eloquently of their commitment to family farming as a way of life, and their frustration that despite their farm backgrounds, despite their formal agricultural training, and despite their sincere determination, they could not get the credit they needed to get started. They told the committee what studies have already revealed—that family farming is the most efficient mode of agriculture; that family farm communities are better places to live than towns surrounded by factory farms. They also demonstrated something, however, that many people are too quick to overlook—that family farming is a way of life that represents something much deeper than economics, and that a society that fails to act to keep the opportunity for this way of life alive will be, in fact, acting to destroy a significant part of the spirit that created this country in the first place.

The Farm Entry Act would address the problem of entry into farming by creating a cooperative state-federal program. Under the bill, the Secretary of Agriculture could make 90 percent guarantees of various kinds of credit available to states. To get the guarantees, the state would have to design a program and submit it to the Secretary of Agriculture, who would then decide whether the program would be an effective and fiscally responsible way to help people get started in family farming. Once their program was approved, the states would have to administer the guarantees and select the applicants who would get them.

Minnesota already has a program, and it is working very well. Using state guarantees, the Minnesota program helped 86 people get started in farming in its first fourteen months, with a staff of only three people. So far, the program has worked very well. Recently, I received a copy of a letter from the Iowa Department of Agriculture stating that they could administer a program such as that envisioned in S. 582 with only the addition of one new clerical person.

I believe that by having the states run this program, we can provide a mechanism for creative, well-administered approaches to the problem of entry into farming. Since most states lack the constitutional authority or the funds necessary to provide guarantees, however, federal involvement at the resource level is appropriate. The bill also encourages states to add further program features, such as tax breaks for sellers who give new entrants a lower price. This cooperative effort could have a significant impact on the problem, then, and yet only cost the taxpayer the amount that the government is unable to recover on defaults. Since

farmers are the most reliable of all borrowers, and since land is probably the most reliable of all collateral, it is unlikely that this program will have significant costs.

I would like, Senator McGovern, to insert at this point the statement I made introducing the bill. This statement includes a more detailed explanation of the reasons for the bill, as well as a section-by-section analysis of its provisions. I would also like to insert a recent editorial from the *Washington Star** endorsing the proposal. It is most unusual for a city paper to run a lead editorial on a farm subject, and I think that it deserves to be part of the record of these hearings.

[From The Congressional Record—Senate, March 8, 1979]

By Mr. Nelson (for himself, Mr. McGovern, Mr. Melcher, Mr. Heinz, Mr. Stafford, Mr. Ford, Mr. Pressler, Mr. Stevens, Mr. Stewart, Mr. Leahy, Mr. Hollings, Mr. Riegle, and Mr. Levin):

S. 582. A bill to provide Federal guarantees for State programs designed to assist individuals who, except for their lack of financial means, would be qualified to enter farming on a full-time basis; to the Committee on Agriculture, Nutrition, and Forestry.

FARM ENTRY ASSISTANCE ACT

Mr. NELSON. Mr. President, I send to the desk a bill in behalf of myself, Mr. McGovern, Mr. Melcher, Mr. Heinz, Mr. Stafford, Mr. Ford, Mr. Pressler, Mr. Stevens, Mr. Stewart, Mr. Leahy, Mr. Hollings, Mr. Riegle, and Mr. Levin, to provide Federal guarantees for State programs designed to assist individuals who, except for their financial means, would be qualified to enter farming on a full-time basis.

Mr. President, the last few decades have witnessed a disturbing decline in both the number of family farms and their relative contribution to American agriculture. A large part of the explanation for this trend is the increasing difficulty of entering family farming. As costs become more and more prohibitive, only those who already have substantial assets can get access to credit. The result is that farmland is sold primarily to farmers expanding their operations, to large corporations with the capital to invest in land, either to farm or to develop, or to investors and speculators, many of whom will eventually withdraw the land from farming altogether. Only a fortunate few can gather the resources to begin farming under these circumstances.

The result of this pattern is fewer and larger farms, less land in production, and less business for local rural communities dependent on a family farm economy. Current Federal programs have eased the problem somewhat, but data shows that they have not helped nearly enough. The bill I am introducing today, along with Senators McGovern, Melcher, Heinz, Stafford, Ford, Pressler, Stevens, Stewart, Leahy, Hollings, Riegle, and Levin, provides a way to ease entry into farming with a minimum amount of Federal expenditure and involvement.

This bill would authorize the Secretary of Agriculture to guarantee assistance made available through State programs designed to facilitate entry into farming by well-qualified, but low asset individuals. States would design and administer the programs, and would select the applicants for participation.

If a State's program was approved by the Secretary of Agriculture, the Government would guarantee 90 percent of the payments of a program beneficiary on a loan, a contract for deed installment sale, or a lease. Applicants would have to show that the farm they intend to operate is a family-sized unit and that they could operate it in a way that would provide them with an income adequate for living and farm expenses.

States would be encouraged to enact programs what relieve new farmers of a portion of their payments in the early years of operation, either by State loans to cover some of these costs or through other means such as variable repayment mortgages. States with such especially beneficial programs would receive extra guarantee authority, but all States must be able to show that their programs would promote family farming and would be fiscally responsible. Four hundred million in loan guarantees would be authorized annually, 75 percent of which would be distributed according to farm population and 25 percent of which would be granted to States with especially meritorious programs.

Only a fraction of this amount, however, would be needed to be appropriated as a reserve fund, probably no more than 10 percent. The fiscal impact, therefore, will be very small. The Secretary of Agriculture will make a recommendation to Congress on the precise reserve fund needed each year.

*See p. 70.

The need for this program is very clear. In the last 40 years, the number of farms has been cut by a third, from 6.8 million in 1935 to an estimated 2.3 million in 1978. While the number of farms has declined, the relative importance of the family farm has declined as well. If a family farm is defined as one with no more than 1.5 man/years of outside labor, then family farms account for 90 percent of all farm units, but only 60 percent of the total output. The rapidly growing category of industrially organized farms, on the other hand, accounts for only 2 percent of the farms, but 15-20 percent of the output.

The decline of the family farm, in fact, has recently been thoroughly documented by two congressional agencies: the General Accounting Office, in its study entitled "Changing Character and Structure of American Agriculture," and the Congressional Budget Office in its "Public Policy and the Changing Structure of American Agriculture."

The decline is not a result of inefficiency. According to the GAO, IRS returns show that farms in the typical family farm category are the most efficient of all in terms of costs of production and return on investment. The Congressional Budget Office concluded that even if the Government were to follow a policy that severely restricted farm expansion, food costs would remain basically unaffected. USDA studies have repeatedly confirmed that the family farm is the most efficient sized unit. The basic cause of the decline of the family farm is not, then, any lack of efficiency, but as the Congressional Budget Office stated, a Federal Policy that has "led to greater concentration in farming."

Family farming is more than just efficient, however, studies published by the Small Business Committee have provided empirical proof of the commonsense observation that rural communities surrounded by family farms are more vital and prosperous than communities surrounded by large farms. Large farms will get their supplies elsewhere, and the labor force they hire will be much less likely to participate in community life in the same way that independent farmers are.

Unfortunately, family farming is extraordinarily difficult to enter, an observation supported by recent studies. According to a recent report of the Federal Reserve Bank of Kansas City, in 1976 only about 20-25 percent of the land sold for use in farming went to new farmers starting operations. This compares with 60 percent in 1956. A 1973-75 Minnesota study showed that 90 percent of the land is being purchased for expansion. The reason for these trends, of course, is the cost of farmland and equipment.

To capitalize a moderate-sized family farm (sales of \$40,000-\$60,000 annually), between \$250,000 and \$575,000 is required, according to the GAO. A recent study by University of Wisconsin researchers found that farmers who actually started operations between 1961 and 1976 averaged \$37,000 in funds available for startup costs, and these figures do not reflect the tremendous inflation of the last two decades. When inflation is taken into account, this study suggests that \$50,000 or \$60,000 in available funds would be required for startup, a sum very few beginning farmers are likely to have. Without these funds, however, creditors are very reluctant to make loans to entering farmers, especially when there is demand for the land from well-established farmers and from wealthy investors.

In the last several years, many States have recognized the seriousness of the problem and have seriously considered legislation to address it. While bills are still pending in many States, two States—Minnesota and North Dakota—have already started programs. The Minnesota program is the most ambitious, guaranteeing loans and payments on contracts, making loans to new farmers to help pay early interest costs, and giving a tax break to sellers who sell to program participants at lower rates.

In the first 14 months of the program, 86 loans were guaranteed. The total staff for the program consisted of three people, and the total administrative cost was only \$80,000. The program has been a great success. In fact, retiring farmers are coming to the program in large numbers to ask that they be able to sell under the program to a neighbor, relative, or friend who lacks resources. These sellers are willing to give the buyer special breaks in interest and sale price in return for the State's guarantee.

It is this local participation that is crucial to a program's success, and this bill would guarantee that participation. There is, of course, an existing program under Farmers Home. While this program, under its new regulations, will be of substantial assistance to low-asset entering farmers, Farmers Home officials estimate that two-thirds of the applicants who might qualify are turned down for lack of funds, and many other potentially qualified people never even apply because of the long delays involved in getting Farmers Home assistance. Moreover, Farmers Home has been chronically beset with a shortage of personnel to administer its program.

Even if Farmers Home had the money and the staff, however, it would still be unable to provide credit in a number of situations which are especially well-suited to an entering farmer. Farmers Home cannot, for instance, guarantee payments on a contract for deed sale, in which a seller agrees to sell his farm on a contract, stating that 29 percent will be paid down and the rest paid over 10-20 years, sometimes with a balloon payment at the end. Farmers Home can assist in getting a loan for the down payment, but that is all, and many sellers would be reluctant to sell to a person with no other assets or backing.

Contract sales are rapidly gaining in popularity, however, since they offer the seller substantial capital gains tax advantages. They also offer the buyer a way to purchase a farm with a substantially smaller down payment, and often with interest rates on the contract below bank interest rates. In fact, in many States, most sales of land from one farmer to another are through contracts. In Minnesota, almost all participants in the farm entry program buy through contracts.

The bill I am introducing today would allow a State to use the Federal guarantee to guarantee payments on these contracts. States could then add additional features, such as loans to the farmer to ease the impact of early payments while he is getting established, tax breaks to the seller in return for a lower price for the farm, and agreements with the seller to include special provisions in the contract, such as a long payback time, to make the operation more feasible for the new farmer. Since many retiring farmers would like to sell their farm to a new farmer—perhaps a neighbor or a relative—but are reluctant to take the risk, the contract guarantee procedure offers a way to help everyone simultaneously.

This is but one example. State designed programs can have tremendous variety—lease guarantees, variable amortization plans, and so forth—with the framework of the bill. States can learn from the experiences of other States which approaches work and which do not. States which do not want to participate do not have to do so.

This bill would provide, therefore, a creative and innovative supplement to Farmers Home. It would take some of the pressure off their overburdened staff, and it would provide hundreds and eventually thousands of opportunities for new farmers who otherwise would have to do something else.

The cost of this program is modest—\$400 million per year in guarantee authority. Only a small fraction of this would be needed as appropriations, however. Farmers have a remarkable record of repaying their debts, so the guarantees would rarely be used in all likelihood. The reserve fund necessary to be appropriated to cover this program, therefore, should be small, perhaps 10 percent per year or less meaning actual annual appropriation of \$40 million per year or less.

This small annual appropriation will have very large economic benefits for farm communities and the agricultural economy. I urge all of my colleagues to consider this bill carefully. I believe that if you do, you will support it.

I ask unanimous consent that a copy of the bill, plus a summary and section-by-section analysis of it, be printed in the Record.

There being no objection, the bill and material were ordered to be printed in the Record, as follows:

S. 582

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Farm Entry Assistance Act".

SEC. 101. The Congress finds that—

(1) the average size of farms has been increasing, and the number of farms declining. The decline in farm numbers limits rural opportunities both on the farm and in the communities that depend on a strong farm economy;

(2) the cost of entering family farming on a full-time basis has grown substantially in recent decades, making entry into farming almost impossible except for those individuals who inherit a farm or who have considerable financial assets;

(3) because the entry barriers into family farming are so significant, it is increasingly difficult for new farmers or part-time farmers to enter full-time farming, even when they possess the ability to make a good living from farming. Neither the private market nor the existing federal programs can provide the necessary means for such individuals to enter farming;

(4) If new entrants into full-time family farming are discouraged by the high capital barriers, farmland that might otherwise have gone to new farmers will be sold to existing farmers consolidating and expanding their holdings, to non-farming investors for lease to farmers, or to investors who will remove the land from agricultural use. The effect of these acquisitions will be to expand farm size, since new entrants into farming are more likely to enter farming on a smaller scale;

(5) the maintenance of a farm system dominated by family-sized units is and should be a basic goal of American agricultural policy. The maintenance of such a system, however, is only possible if entry into full-time family farming is possible for those without substantial individual assets;

(6) the most appropriate manner for entry into full-time family farming, and the barriers to such entry, vary by state and region. Any program to provide assistance to those seeking to enter into full-time family farming should be adapted to local conditions; and

(7) federal support for local efforts to aid those interested in and qualified for entry into full-time family farming would help to maintain the family farm system and prevent further consolidation of farm size.

PURPOSES

SEC. 102. The purposes of this Act are to—

(1) establish a program to provide federal guarantees for loans or other forms of assistance to individuals who wish to enter full-time family farming and who are well-qualified to do so in all respects other than their financial assets; and

(2) distribute the guarantees through programs to be established by the individual states.

DEFINITIONS

SEC. 103. As used in this Act—

(a) The term "family farm" means a farm (1) owned and operated or leased and operated by an individual; (2) of a size sufficient to be maintained and operated by such individual and members of his or her family or with no more than the equivalent of one person-year of hired labor; (3) which provides sufficient income by itself in average or better than average agriculture years to enable the individual to meet necessary family and operating expenses, including the maintenance of essential chattel and real property and the payment of debts.

(b) The term "full-time family farmer" means an individual whose primary occupation is the operation of a family farm. An individual with employment off the farm shall not be excluded from this term if such employment is intended only to supplement income provided from the farming operation and does not prevent the individual from performing necessary tasks of the farming operation personally.

(c) The term "Secretary" means the Secretary of Agriculture.

(d) The term "land sales contract" means a contract for the sale of farm land in which the seller agrees to transfer land permanently to the buyer upon completion of the terms of the contract agreed on by the seller and buyer which specifies that no more than 29 percent of the total cost is to be paid in the initial payment, subsequent payments are to be made for not less than ten years, and prior to completion of the terms of the contract, title is to remain in the seller.

(e) The term "variable repayment program" means a program for the repayment of a loan in which the lender and seller agree that the terms of the loan may be subsequently altered to increase the term of the loan, to decrease or defer individual interest or principal payments, or any other agreement designed to decrease payments during periods of financial stress to the borrower.

(f) The term "beneficiary" means an individual receiving assistance under this program.

(g) The term "state" shall include all of the 50 states of the United States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, the Commonwealth of the Northern Marianas, and the territories and possessions of the United States.

(h) The term "state agency" shall mean the agency of state government which has the responsibility for administering the farm entry assistance program in that state.

TITLE II—ESTABLISHMENT OF FARM ENTRY ASSISTANCE PROGRAM

FEDERAL PROGRAM

SEC. 201. (a) The Secretary shall establish within the Department of Agriculture a program to provide financial assistance to individuals who are seeking to establish and operate full-time family farms, who have been approved by appropriate state agencies for participation in the program, and who are qualified under the qualifications set forth in Title III of this Act.

(b) The Secretary, through the program, is authorized to guarantee loans made by any legally organized lending agency to eligible applicants approved for participation in the program and to guarantee the payment of contract obligations on or

leases of family farms by eligible applicants approved for participation in the program. No contract guaranteeing any such loan or lease shall require the Secretary to guarantee more than 90 percent of the principal and interest on such loan or more than 90 percent of payments due under such lease or contract.

STATE PROGRAMS

SEC. 202. Participation in the family farm entry program shall be through programs established and administered by the states.

SEC. 203. If a state wishes to participate in the program, the Governor of the state shall submit an application to the Secretary setting forth such information as the Secretary shall require with regard to the operation of the program at the state level. The Secretary shall approve or disapprove any application submitted by a state within 6 months after receipt by the Secretary in accordance with regulations to be issued by the Secretary within 180 days after enactment of this Act. Proposed regulations shall be issued for public comment within 120 days after enactment of this Act.

SEC. 204. A State may amend its program with the approval of the Secretary. Amendments shall be approved or disapproved within 90 days after submission to the Secretary.

SEC. 205. The Secretary shall approve a state program if it includes the following:

(a) A state agency created or designated to administer the program subject to the advice of the advisory committee.

(b) An advisory committee, designated or appointed by the Governor of the state to include local bankers, farmers, agricultural specialists and such other representatives as the Governor may determine necessary, to advise the state agency concerning the administration of the program, including the selection of applicants and the approval of the guarantees to lenders and lessors.

(c) A procedure to assure that the program will select applicants who are likely to repay all obligations.

(d) A procedure to encourage the settlement of family-size farms generally not larger than average family farms for the area by eligible applicants as defined in this Act.

(e) A reasonable likelihood that the program will lead to eventual purchase of all or part of the land operated by program beneficiaries except when a guarantee of a lease is involved.

(f) A reasonable likelihood that the program will make a contribution to the maintenance of a family farm structure in the area.

(g) Adequate administrative mechanisms.

(h) Adequate provisions to assure that leases, contracts or mortgages do not include conditions detrimental to the successful operation of the farm.

SEC. 206. The Farmers Home Administration shall cooperate fully with state agencies in administering the program.

SEC. 207. The Secretary shall periodically review state program to assure that they continue to meet the requirements of this Act. If any of such requirements are not being met, the Secretary shall notify the state that such a finding has been made. The state shall have six months to revise the program and submit the revised program to the Secretary, who shall approve or disapprove it within 90 days after receipt of the submission. Disapproval shall terminate any further responsibility of the Secretary to provide guarantees to any individuals not * * * state agency. A state which has had a program terminated may reapply at any time.

TITLE III

APPLICATION FOR THE PROGRAM

SEC. 301. Individuals wishing to receive assistance under the program must apply through a qualified state program which has been established pursuant to Title II of this Act.

SEC. 302. In addition to such qualifications as the state may designate, to be eligible for assistance under this Act applicants must meet the following criteria:

(a) Applicants must be seeking to operate a family farm and must be entering farming on a full-time basis for the first time during the ten years prior to the date of application.

(b) Applicants must certify that without the assistance made available through the program, they would be unable to obtain the credit necessary to enter farming on a scale adequate to cover family and farm expenses and to generate a reasonable return on investment in normal or above normal agricultural years for the area.

Such certification must include denial of credit on reasonable terms from a commercial source and the Farmers Home Administration. Denial of credit by the Farmers Home Administration due to an excess of applicants will qualify an individual under this section.

(c) Applicants must be able to demonstrate that they are qualified to operate a family farm on a full-time basis. Part of this demonstration shall be a record of direct on-farm experience for not less than one year.

(d) Applicants must have net worths of less than \$75,000 in 1979 dollars, as may be adjusted by the Secretary to account for inflation in subsequent years. This limit may be raised by the Secretary to account for special circumstances within a state which may, in his judgment, justify a higher limit.

SEC. 303. Applicants meeting the above criteria and approved by the state agency shall be eligible to receive federal assistance through the state agencies as specified in this Act, upon certification by the state agency that—

(1) the farm unit they are proposing to operate can, if properly managed, generate enough income to cover family and farm expenses in normal or better than normal agricultural years for the area;

(2) the farm unit they are proposing to operate would be the size of a family farm as defined in this Act; and

(3) applicants have met any other criteria the state may have designated concerning farm size and structure.

TITLE IV

FEDERAL ASSISTANCE TO APPLICANTS THROUGH STATE AGENCIES

SEC. 401. Federal assistance to applicants approved through state family farm entry programs shall be made available by the Secretary upon the Secretary's receipt of notifications by the state agency of approval of the applicants. Such assistance shall be in the form of guarantees of loans or leases as specified in section 201 and shall be subject to the requirements of this Title.

SEC. 402. (a) In the event of a default by any beneficiary on a loan guaranteed under this Act, the lender shall notify the state agency. No claim on the guarantee may be filed until the beneficiary shall have been allowed 180 days to remedy any such default. If the default is not remedied at the end of such period, the lender may file a claim for payment of the amount in default with the state agency and that agency shall forward the claim to the Secretary if the agency agrees that a default has taken place.

(b) Upon receipt of a claim for payment of an amount in default, the Secretary shall determine, with the advice of the state agency, whether the beneficiary is likely to default again. If the Secretary determines that the beneficiary is not likely to default again, the Secretary shall make a loan to the beneficiary for the amount in default. The interest rate on such a loan shall be determined by the Secretary, but not in excess of the current average market yield on outstanding marketable obligations of the United States with remaining periods to maturity comparable to the average maturities of such loans, plus not to exceed 1 percent, as determined by the Secretary, and adjusted to the nearest one-eighth of 1 percent. Any such loan shall be payable in not more than 10 years and secured in such manner as the Secretary determines appropriate.

(c) If the Secretary determines that the beneficiary is likely to default again, the Secretary shall pay the lender the outstanding balance due on the loan, up to the amount guaranteed, and shall take an assignment of all the lender's rights in the loan and interest in any property which served as security for the loan. In the case of default on a loan for the purchase of a farm or equipment, the Secretary may foreclose upon the property and sell it to the highest bidder within one year from the date of foreclosure. Any net proceeds received from such a sale shall be in the revolving fund created by section 503 of this Act.

(d) In the event of a second default, the Secretary will remedy the default as outlined in subsection (c).

SEC. 403. In the case of a guarantee of a lease, if a payment is not made within 90 days of its due date, the lessor may request payment from the Secretary. The Secretary shall make 90 percent of all payments due for up to 3 months, in full, within 60 days of the Secretary's certification of the validity of the claim. Such certification shall occur within no more than 30 days after receipt of the lessor's request by the Secretary. The payment shall be a loan to the beneficiary. The interest rate on such a loan shall be determined by the Secretary but not in excess of the current average market yield on outstanding marketable obligations of the

United States with remaining periods to maturity comparable so the average maturities of such loan plus not to exceed 1 percent as determined by the Secretary and adjusted to the nearest one-eighth of 1 percent. Any such loan shall be repayable in no more than 5 years. The Secretary shall make two such payments during any ten year period if needed. If the beneficiary fails to make payments within 90 days of their due date after the Secretary has made two previous payments, the lessor may again request payment and the Secretary shall make the payment as above. The Secretary shall, however, notify the lessor that no further payments will be made. The beneficiary shall repay the government for the loans as specified above. In the event of a default on the loan by the Secretary for any of the payments, no penalties shall be applicable but the information shall become part of the beneficiary's record and shall be kept on file with the state agency.

SEC. 404. (a) In the event of a default by any beneficiary on contract payments guaranteed by the Secretary under this act, the seller shall notify the state agency. No claim on the guarantee may be filed until the beneficiary has been allowed 180 days to remedy the default, or such time as the contract may specify, whichever is shorter. If the default is not remedied in this period, the seller may file a claim for the payment of 90 percent of the amount in default with the State agency and that agency shall forward the claim to the Secretary if the agency agrees that a default has taken place.

(b) Upon receipt of a claim for payment of an amount in default, the Secretary shall determine with the advice of the state agency, whether the beneficiary is likely to default again. If the Secretary determines that the beneficiary is not likely to default again, the Secretary shall make a loan so the beneficiary for the amount in default, following the procedures and conditions established in Sec. 402(b).

(c) If the Secretary determines that the beneficiary is likely to default again, the Secretary shall pay the lender the amount in default. The lender will then have the option of:

(1) Using those remedies available to him in law under the contract, including reassuming the contract and selling the farm unit. In the case in which such an option is chosen, however, the seller must pay 90% of the total contract payments which had been guaranteed by the government up to the point at which default had occurred, or,

(2) Requesting that the Secretary continue to make 90 percent of the payments due under the contract until such time as the state agency can find another qualified beneficiary to assume the remainder of the contract. At that time, the Secretary will again provide a 90 percent guarantee of payments on the contract by the beneficiary, and the new beneficiary will be considered in the same category as other beneficiaries their contract payments. States must locate such a new beneficiary within one year of default. Failure to do so will be cause for a review of the consistency of the state program with the purposes of the act.

(d) In the event of a second default, the Secretary will make payments as specified in Sec. 404(a), and proceed as in subsection (c) above.

SEC. 405. (a) Guarantees shall be available for approved applicants under other state programs using approaches other than those specified above, provided that the Secretary determines that they are consistent with the requirements of subsections (c) through (b) of section 205 of this Act. Approaches involving land sale contracts, lessor payments, or land or equipment purchase loans must, however, follow the guidelines set forth in this section.

SEC. 406. Guarantees to lenders shall be available through approved state programs in the following circumstances:

(a) Guarantees shall be available for approved applicants to purchase land sold by the seller pursuant to a land sale contract, provided that the terms of sale call for not less than a ten year repayment period. Programs which encourage sellers to extend the term of repayment beyond ten years shall receive preference. Land sale contracts of less than ten years shall be guaranteed only if the Secretary determines that local conditions are such that allowance of the shorter repayment period will not be likely to cause program beneficiaries to default in non-disaster years.

(b) Guarantees shall be available to approved applicants for loans for the purchase of farm land, for operating purposes, or for both. Programs which encourage lenders to provide for deferred principal payments or other variable repayment approaches shall be given preference. Programs without such approaches shall be approved only if the Secretary determines that such approaches are not necessary in the local area to assure that the Federal government will not have to cover an unreasonable number of defaults.

(c) Guarantees shall be available for approved applicants to make payments to lessors for a period of not more than ten years.

(d) Guarantees shall be available for approved applicants under other state programs using approaches other than those specified above, provided that the Secretary determines that they are consistent with the requirements of subsections (c) through (g) of this section 205 of this Act. Approaches involving land sale contracts, lessor payments, or land or equipment purchase loans must however, follow the guidelines set forth in this section.

SEC. 407. Loan guarantees or lease payment guarantees for loans or leases obtained by fraud shall be invalid.

SEC. 408. Guarantees for loans for the purchase of land shall be made only after the state agency has conducted an appraisal of the land to be purchased and has certified that the price of the land is reasonable based on the market value of other land in that area. Procedures for such appraisal must be included in the state's application to the Secretary.

SEC. 409. Guarantees for the purchase of land or equipment shall not be transferable and shall be terminated upon sale of the equipment or property covered by the guarantee. State programs must include provisions preventing use of the programs for speculative purposes, including a provision that any sale of land by a program beneficiary occurring within 10 years of the issuance of the guarantee shall be to the Secretary at the price at which the land was purchased, adjusted to reflect any change in the consumer price index for the period. In the event of a sale of land to the Secretary, the Secretary shall sell the land within one year to the highest bidder. The state program, however, may allow waiver of the requirement for sale of land to the Secretary in cases of disability, death, or extreme hardship.

TITLE V

FUNDING

SEC. 501. There are hereby authorized to be appropriated to the Secretary such sums as the Congress shall deem necessary for the administration of this Act.

SEC. 502. Commencing with the first fiscal year beginning at least one year after the enactment of this Act, the Secretary shall make available not more than \$400 million in guarantees for each of the following four fiscal years. Such guarantees shall be allocated under this Act in the following manner:

(a) \$100 million shall be allocated to those states with programs of special merit or addressing special needs as determined by the Secretary.

(b) The remainder shall be allocated by the Secretary among the states with approved programs in the proportion that the farm population of such state bears to the total farm population of all of the states with approved programs as determined by the Secretary based on the latest preceding decennial census. Any allocation which remains unobligated at the end of a fiscal year shall revert to the Secretary for allocation in the following year.

SEC. 503. (a) There is hereby created the Farm Entry Assistance Fund (hereinafter called the "Fund") which shall be used by the Secretary as a revolving fund for the discharge of the obligations of the Secretary under contracts guaranteeing loans or leases under this Act.

(b) There are hereby authorized to be appropriated such sums as the Congress shall deem necessary to establish the Fund and to replenish amounts paid from the Fund to cover defaults on guaranteed loans and other payments pursuant to contracts of guarantee.

TITLE VI

REPORTS

SEC. 601. The Secretary shall report to the Committee on Agriculture, Nutrition, and Forestry, United States Senate, and the Committee on Agriculture, United States House of Representatives, not later than December 31 of each year on the operation of the program under this Act during the preceding fiscal year. The first report shall be made after the first full fiscal year of operation of the program.

SUMMARY OF THE FAMILY FARM ENTRY PROGRAM

The family farm entry program would authorize the Secretary of Agriculture to guarantee assistance made available through state programs to aid new farmers get started in farming.

Under the program, states could design programs to assist new farmers who are well-qualified, but lack the necessary resources to get started in farming. If the Secretary approved the program, he would guarantee the credit portion of the assistance made available. The state would administer the program, including selection of the applicants and supervision of their performance in the program. States could add any additional features to the program they choose, such as loans from the state to help pay for early interest costs or tax reductions to sellers who sell to beginning farmers at lower prices.

In order for a program to qualify, a state would have to show that it would select applicants who have farming skills and experience, and are likely to repay any credit guaranteed. Their net resources must be less than \$75,000 in 1978 dollars, and they must be able to demonstrate that they could not obtain credit elsewhere within a reasonable amount of time. They must be entering full-time farming for the first time (part-time farms may apply), and must present a plan for farm operation that is feasible. The farm they plan to operate must not be larger than average size family farms for the area.

Applicants will be selected by the state, with the advice of local advisory committees. States may design their program in any number of ways, including arranging federal guarantees of conventional farm purchase loans, guarantees of payments on installment sale contracts, and guarantees of lease payments. On conventional loans, however, states must arrange the loans so that early interest or principle payments can be deferred (this could be done through state loans for early interest payments or bank agreements to charge less in early years), unless they can present a compelling reason why this is not necessary.

The guarantees will be granted automatically to successful applicants, and will provide 90 percent of the amount due. If a beneficiary is in default on payments once, the Secretary may make up his payments through a loan to the beneficiary. After the second default, however, the Secretary will be required to fulfill the terms of the contract with the lender or with the seller in an installment sale.

Guarantees will be distributed by formula. 75 percent will be distributed according to farm population by state, and 25 percent will be distributed at the discretion of the Secretary to states with especially meritorious programs, such as those that provide loans for early interest payments or special tax breaks for sellers who sell to beginning farmers at lower costs.

\$400 million in guarantee authority is provided for fiscal year 1980, but only \$40 million will be appropriated as a reserve fund to cover these guarantees.

SECTION-BY-SECTION ANALYSIS OF FAMILY FARM ENTRY PROGRAM

Sec. 101. Findings. This section states that the Congress finds that family farm are declining in number and relative importance and that entry into farming has become increasingly difficult, even for well-qualified people. The high capital barriers to entry means that more and more farmland will be purchased by farmers expanding their operations and by investors and large corporations who may, in some cases, withdraw the land from agricultural use.

Sec. 102. Purposes. This section states that it is the purpose of the act to assist well-qualified new farmers who lack the necessary assets to enter farming on a full-time basis. The assistance will be made available through federal guarantees administered by the states.

Sec. 103. Definitions. A family farm is one operated by an individual large enough to provide an adequate income in normal years, but small enough to be operated with no more than one person-year of outside hired labor.

A family farmer operates the family farm full-time, but is not precluded from working part-time to supplement his income.

Land sale contracts and variable repayment mortgages are defined.

Sec. 201. This section establishes the program at the federal level. 201 (a) and (b) authorize the Secretary to make 90 percent guarantees of the payments due on loans, land sale contracts or leases made to beneficiaries selected by states having approved farm entry programs.

Sec. 202. Establishes that participation in the program shall be through state programs approved by the Secretary.

Secs. 203 and 204. Establishes time limitations on approval of state programs and amendments to state programs by the Secretary.

Sec. 205. Establishes criteria for approving state programs. Among other criteria, states must create an agency to administer the program, and local advisory boards to participate in administration. Programs must select people who can demonstrate that they have the ability to farm successfully and repay their obligations. Programs must also require that farms purchased or operated in the

program must be no larger than average family farms in the area, and must be capable, in the judgment of the Secretary, of making a contribution to the maintenance of family farming in the area.

Sec. 206. Authorizes the Farmers Home Administration to cooperate fully with the states in administering the program.

Sec. 207. Authorizes the Secretary to review the program periodically.

Sec. 301. Specifies that individuals will apply through their state agencies for participation in the program.

Sec. 302. Establishes requirements for applicants wishing to participate. Among other requirements, the applicants must be entering full-time family farming for the first time in ten years, must certify that they could not get credit elsewhere within a reasonable amount of time, must demonstrate that they are qualified to enter full-time farming, and must have net worths under \$75,000.

Sec. 303. Establishes that applicants meeting the criteria in 303 may be approved provided that the farm unit they intend to operate is family-sized and is capable of generating an adequate income. States may also specify additional requirements.

Sec. 405. Specified types of assistance for which guarantees will be available. These include land sale contracts with repayment periods of at least ten years, loans for farmland purchase or the purchase of operating equipment, provided that these loans have provisions for deferral of some portion of the early payments, and guarantees of leases.

Sec. 406. This section specifies that approaches other than those in 405 can be accepted, provided that they meet the criteria of the act.

Sec. 407. Fraudulently obtained guarantees are invalid.

Sec. 408. Guarantees of land purchases may only be made after an appraisal by the state has concluded that the price of the land is consistent with other land prices in the area.

Sec. 409. Establishes procedures for preventing the use of the program for speculation.

Sec. 501. Authorizes funding for the program.

Sec. 502. Authorizes a ceiling of \$400 million in guarantees annually for the next four years, and establishes that \$100 million will be authorized to be distributed by the Secretary to especially meritorious programs, with the other \$300 million distributed by farm population.

Sec. 503. Creates a reserve fund to be established to cover defaults.

Sec. 601. Calls on the Secretary to report on the program annually.

Sec. 401. Establishes that federal guarantees will be made available through the states.

Sec. 402. Establishes procedures for defaults on loans. A beneficiary who defaults will have 90 percent of the amount in default paid to the creditor by the Secretary, with the amount being considered a loan, provided that the Secretary does not determine, on advice of the state, that the beneficiary is likely to default again. In that case, or on the second default, the Secretary will pay 90 percent of the remaining amount due on the loan, take title to the land, and sell to the highest bidder.

Sec. 403. Establishes procedures for defaults on lease payments. This section again calls for 90 percent payments of amounts in default, with the amount being considered a loan to the beneficiary, provided default is not likely to occur again. In that case, or in the case of a second default, the 90 percent amount in default will again be paid, and the guarantee will cease.

Sec. 404. Establishes procedures for payment of defaults on contract obligations in installment sales. The procedure follows that in 402, except that in the event of a default, the seller may exercise his rights in law and reassume the contract (to resell the property) provided that he pays the government 90 percent of the amount paid on the contract. This provision is designed to prevent sellers from encouraging default so that they can take advantage of the guaranteed payments and then resell the property once it has been partly paid for. If the seller does not reassume the contract, he will receive 90 percent of the remaining payments due, but the government will direct the state agency to find new applicants to assume the remainder of the contract.

Mr. MCGOVERN. Mr. President, I rise as the principal coauthor with my good friend from Wisconsin (Mr. Nelson) to place before the Senate for its consideration the Farm Entry Assistance Act of 1979. It is a bill that comes to grips realistically with one of the most serious economic problems of the agricultural community: The problem of young farmers coping with the realities of financing an economically sound agricultural unit.

Let me say that this problem is not one that has just surfaced. It has been with us for years and conditions are worsening with the passage of time. Each time I go back to South Dakota, I learn anew that the insurmountable financial problem of young farmers is probably the most pressing credit problem on the scene. The average age of America's farmers is now approaching 55 years and there is no long-range answer to getting the new farmer in business. Indeed, the cynical side of the equation is that a young man planning to enter farming must either inherit land from well-to-do parents or marry into an existing successful operation. How long can we rely on this mechanism as an answer to solving the credit problems of future food producers?

I am not new to this problem, Mr. President. Several years ago, I with nearly 20 cosponsors, introduced the Young Farmers Homestead Act, patterned somewhat after an experiment that has been a success with our neighbors in Canada. I continue to believe that this legislative initiative is the best answer to this pressing problem. Its drawback is not necessarily conceptual. Someday, a program like the Young Farmers Homestead Act will be adopted. Rather, the problem is that it calls for a substantial original outlay of Government funds. In these days of fiscal austerity, there is little reason to believe that any administration would be willing to shoulder the financial commitment to move this type of legislation.

Given this condition, it is not possible to retreat from the problem. It is possible, however, to develop a more modest approach by using convenient credit tools of Government guarantees in concert with money outlays from the private sector.

The bill we propose today would involve the Secretary of Agriculture as a guarantee authority for acceptable programs set up in the several States. States would formulate programs for the selection of qualified young farmer applicants and would administer and oversee the program under their own sovereign authority. From a legal real estate vehicle, the young farmer would select and purchase his farm on a contract for deed with the requirement that it be an economically viable unit. Initially we would envision a guarantee authority of \$400 million, distributed to the States in proportion to farm population. The leverage created by a fiscally sound reserve together with the initially relatively low commitment of a contract for deed would create a substantial buying authority, even in the initial years, thus making the fiscal impact somewhat modest in relation to the amount of land that would initially come under contract commitment. An unrecognized meritorious feature would be the IRS benefit to sellers who presumably would desire to sell their inflated land under installment type contracts, thus minimizing their exposure for capital gains liability under Internal Revenue Code regulations.

Let me say, Mr. President, that this concept is not without precedent. Under its own initiative, the Minnesota State Legislature adopted a similar plan several years ago, admittedly modest to start with but, nevertheless, a substantial success due to prudent management on the part of Minnesota State officials.

It is not necessary to detail a need for this program, Mr. President. Any Senator with a modicum of agricultural constituency already knows this. The facts are that it takes over a quarter of a million dollars for a young man to start farming. We obviously cannot go very far at either the State or Federal level in extending this needed credit. Thus it is necessary for us to gather together the most imaginative credit tools whereby we can get the greatest number of acres into a young farmers program for the least number of dollars. Leverage is a credit tool used by virtually all real estate developers. Why can not we in Government not take a page from the developers' handbook and enact legislation which uses the same credit tools? For this reason, I commend this bill to my colleagues and plead for their support. Senator Nelson and I will hold early hearings on this bill and we ask the Secretary and the administration to rise to their own responsibilities and give it the support we think it deserves.

Mr. HEINZ. Mr. President, I rise today to join my distinguished colleagues, Senator Nelson, Senator McGovern, and Senator Stafford, and others in introducing the Farm Entry Assistance Act. I am supporting this bill because I am deeply concerned over the decline of the small family farm. The family farm is not a romantic notion of our distant past; the family farm today plays a key economic role in our society and we in Congress must work to ensure its continued viability.

The legislation we are introducing today addresses one of the major difficulties in family farming, the inability of young, talented farmers to purchase or lease small farms. How can we expect the small family farm to continue if those who want to enter agriculture as a career lack the access to credit so sorely needed to have a farm of their own? Statistics reveal that it takes \$250,000 to \$500,000 to

capitalize a moderate size family farm. Clearly a means is needed to allow families the credit to make such an investment. Accordingly, our bill would call on the States to create programs to assist qualified new farmers in getting started by providing Federal credit guarantees. The Secretary of Agriculture would make available to States with approved programs 90 percent guarantees of loans, payments on contract-for-deed, and leases. These guarantees would be available only to those who are entering full-time family farming for the first time, have low personal assets, are experienced and well qualified to farm, and who have been unable to obtain credit elsewhere. Without such action the prohibitive upfront costs of farming will insure that future farms and farmland will be sold primarily to only current farmers who are increasing their holding, to large corporations with the means to invest in land, or to speculators, who may not even choose to farm the land.

One of the key ingredients of this bill is the emphasis placed on the role of the States. This is not a program that will serve to further bloat the Washington bureaucracy. Rather, the bill encourages States to design and administer their own programs. The States would select the applicant to the program and make the decisions on whether to grant the guarantees. States would be given incentives to link the loan guarantees to other measures such as variable amortization mortgages and tax breaks to farmers who sell to new entrants at lower cost. The Federal Government's involvement would be simply to review and approve the programs to assure fiscal responsibility and to develop certain guidelines so that the programs created help alleviate the problem of family farm entry.

To be sure, this bill will not solve all the problems facing the small family farm. However, I believe it is a positive first step. I am hopeful that through this bill and others, the Congress can engage in a constructive debate that brings the plight of the family farm to the Nation's attention.

It is my belief that if we fail to address this issue the family farm may become an anachronism remembered only in our paintings and literature. Small family farmers would not be the only losers, urban and rural residents alike would suffer the loss.

The decline of the small family farm is clear. Since 1936, the number of farms has declined from 6.8 million to 2.7 million. In 1956, 60 percent of all farm sales were for new starts; by 1978, the percentage was estimated at only 20 to 25 percent. Average farm size has jumped from 197 acres in 1940 to 440 acres in 1974. Only farms with over 1,000 acres have experienced a real rise in farm numbers. Farm population has dropped from over 15.6 million in 1960 to just under 8.3 million in 1976. The largest 20 percent of all farms now make up 80 percent of all gross agricultural sales and the top 2 percent account for about 30 percent of sales.

Disturbing as these statistics are, they are only numbers. In no way can these figures adequately convey both the personal and national loss associated with the disappearance of the family farm.

Now, there are those who say "Yes the small family farm is dying out, but is it really worth saving?" I would answer yes. Let us reflect for a moment on the importance, unique contribution, and benefits of the family farm.

First, we should reject the philosophy that family farms are simply not economically efficient and have become obsolete in an age of large scale, mechanized, factory-type farms. Such a view is too simplistic. For example, studies have shown that small farmers realize a relatively larger share of the total net farm income per acre grown, or per dollar invested, than large farmers. Research in California concluded that small farms were not less efficient than large farms in terms of return per dollar of investment, were more efficient in terms of return per acre, and only 5 to 15 percent less efficient in terms of cost per unit of output.

In addition, the economics of the small family farm should not be viewed solely in the context of productivity. To fully realize the economic importance of these units, it is essential to examine the whole fabric of rural life in America.

The growing predominance of larger farms has resulted in an increase in the number of farmland owners who do not operate or occupy the farm on a day-to-day basis. These owners, often do not live in the local community, do not contribute or participate in community efforts and events, and may take the revenues from the farm operation outside the local area. On occasion, these large land-owners in search of quick profits may exploit the soil through overcropping, excessive pesticide application, and poor soil conservation practices.

The trend of a few large farms replacing many small family farms makes it increasingly difficult for many small towns in rural America to survive. The local income distribution becomes less balanced. Farm related businesses and local jobs

disappear as supplies and equipment come more and more from a few large distribution centers. Local service operations and small firms, dependent on a large class of moderate income farmers, lose their clientele. The independent, self-sufficient, rural, small town lifestyle, that so many cherish, can quickly become a thing of the past.

The decline in the number of family farms and the inability of young people to get into farming due to the costs involved and lack of access to credit has also increased outmigration problems in many rural communities. The loss of productive young men and women combined with a steadily increasing elderly population, places severe financial burdens on the community. Outmigration can also often result in a loss of potential leadership and a loss of continuity between generations.

The gradual disappearance of the small family farm has serious implications for our entire country. I would raise the question whether large-scale farming consolidation, further concentration of power in the diminished number of farms, and increased specialization does not diminish flexibility in our agricultural economy. Small farmers have traditionally played the role of a kind of shock absorber to carry the country through adverse economic conditions. There exists a certain resiliency, continuity, and flexibility in the small family farm. The basic structure of family farms—high equity, self-employment, lower operating costs, and the fact that once crops are in the costs of continuing the process until harvest are extremely low—serves as an incentive to maintain output even if product prices fall to disastrously low levels. The existence of the small family farm thus helps to provide a constant food supply at affordable prices.

For these and other reasons, I am convinced that the small family farm plays a unique and crucial role in our society. In examining how we can assure its continued viability, I hope the Congress will look not only at specific problems facing the family farmer such as cash flow, storage, transportation, and availability of credit, but also at whether present Government programs are actually hurting the small, family farmer. The General Accounting Office reports that despite the Federal Government's expressed desire to maintain the family farm system, many agricultural programs have the opposite effect. For example, GAO contends that since price support crop allotment programs "have been tied to specific commodities and to volume and acreage, they have tended to benefit larger crop-specific and regional-specific farms. Such programs coupled with changes in technology and economic conditions have encouraged increases in farm size. This has resulted in many small volume farms going out of business. Price support and crop allotment programs have been capitalized into increased land values, often raising the purchase price of the land as well as land rental, thus making it more difficult for new farm operators or land renters to get started or expand their operations."

Similarly, the General Accounting Office has written that present Government tax policies have promoted the trend away from smaller, family owned and operated farms, while attempting to do the opposite. "Federal income tax laws provide an excellent tax shelter for outside investors. Recent estate tax laws may inhibit sale of farmland outside the owning family, thus creating a 'landed aristocracy' with fewer avenues for new farmers to enter."

I believe we should also take a look at the research and extension activities of the U.S. Department of Agriculture. A report by the Subcommittee on Administrative Practice and Procedure which examined priorities in agricultural research last year makes clear that serious questions exist over USDA bias. Much of the testimony presented contended that USDA has virtually ignored the small, family farmer.

In summary, the small family farm is a part of American agriculture we cannot afford to lose. The economic, social and environmental benefits of small scale farming closely refute the adage that bigger is always better. We need to work to resolve the problems facing the small farmer. Some of our efforts should be new programs like loan guarantees to ease the credit obstacles young people face in entering farming. And some of our efforts must be directed toward re-evaluating existing programs which may not be achieving their intended results. I am not suggesting we give the small farmer any special treatment, but I question whether we should force him to operate at a disadvantage. We need the small family farmer. Let us not sit quietly and simply watch over his demise.

STATEMENT OF HON. BERKLEY W. BEDELL, A REPRESENTATIVE IN CONGRESS
FROM THE SIXTH DISTRICT OF IOWA

Mr. Chairman, I appreciate the opportunity today to submit at this joint hearing of the Senate Committees on Agriculture and Small Business my views on

the Family Farm Entry Act. I have, as you know, introduced identical legislation in the House entitled the Beginning Farmers Entry Assistance Act.

At the outset I would like to commend both you and Senator Nelson for your very thorough efforts in identifying the need for such legislation and drawing up a bill which I believe most directly addresses the difficulty which prospective young farmers encounter in beginning their own operations.

My personal interest in promoting legislation of this sort has been formed in the course of my service here in the Congress, during which I have heard time and time again from numerous young people who were prevented from entering into farming because of the high capital requirements made necessary by ever-increasing land and machinery costs. My actual support and sponsorship of the Beginning Farmers Entry Assistance Act in the House was prompted largely by the substantial help I have received from farmers, bankers, and state and federal officials in Iowa who have taken the time to convey both their perception of the problem and recommendations for rescuing the family farm.

The task at hand is not simply to identify the farm entry problem or its severity, and the extent to which the problem gives evidence to the general restructuring occurring within the farm economy. By now we are all familiar with the voluminous documentation available attesting to the significant amount of capital required to begin and sustain a modern farming operation, and the effect which this capital requirement has had in reducing the number of farms and farmers. Clearly the trend in agriculture is toward increased concentration with a corresponding decline in diversity. What we must deal with at the present is consideration of responsible proposals which will remove the impediments to entry while preserving the family farm concept.

I believe that the provisions of the legislation at issue today fully embody these major objectives. Central to the bill is the requirement that all forms of assistance be granted only to those farmers who operate a farm unit sufficient to support the farmer and his or her family. Additionally, the legislation wisely authorizes each state which seeks federal guarantees under the proposal to devise a program best suited for the type and scale of farming within its boundaries.

I want to caution that I do not believe this legislation should be used to make it "easy" for prospective young farmers to get started. I do not think that it would be responsible to provide undue incentive to anyone for the purpose of undertaking a vocation which by nature requires a nearly unparalleled expenditure of labor and assumption of substantial risk. Neither do I think that it would be wise to provide, in Northwest Iowa for example, the kind of assistance that would make possible entry into farming on the scale, in terms of machinery and ability to specialize in grain production, which established farmers have achieved only after many years of farming. I believe that the assistance provided should, to the extent possible—and again using Northwest Iowa as an example—encourage development of a diversified operation that makes farming on a smaller scale profitable. Many young Iowa farmers, before the surge in land machinery prices, got their start from raising on a small rented farm grain that was fed to hogs raised from farrow to finish. Of course this "small but sufficient" standard is one that will have different applications in various parts of the country, but I feel it is a standard which nevertheless should guide each state in administering its own program. Legislation of this nature gives us a sound opportunity not to recognize what farming has become, but to define and work toward what we feel farming should be.

As I stated earlier, my support of the language contained in this legislation was the result, in part, of the many comments which I have received from farmers, bankers, and state and federal officials whose views I solicited in an attempt to define and address the farm entry problem. These views were received during a public forum which I held in my district, as well as from personal solicitations from individuals knowledgeable about the entry problem.

The general consensus of those who expressed their views was that prospective farmers did indeed face substantial difficulties in starting their own operation. While the majority felt that something must be done to help alleviate the problems confronted by the young farmer, a number expressed concern about the proper role which government should play in helping the aspiring farmer. The concerns were generally expressed as follows:

(1) Would a federal role in aiding beginning farmers result in the pumping of federal money into the farm economy in competition with private financing, exacerbating the existing inflationary trend in land prices?

(2) Wouldn't the Family Farm Entry Act, in particular, serve merely to duplicate the efforts presently being made by the Farmers Home Administration and the Small Business Administration?

(3) Would a new federal program, in whatever form, result in the creation of an additional level of bureaucracy, either at the federal or state level, or both?

While I certainly understand these concerns, I believe that the Family Farm Act is constructed so as to summarily dispel them.

For instance, the Family Farm Act provides financial assistance in the form of loan guarantees, not loans, and thus will not result in federal money competing with private financing. If the various state programs are devised similar to the program now in operation in Minnesota, land prices will not feel the upward pressure feared by some as a result of the program. The Minnesota program provides that interest payments which accrue to farmers who have sold land under the program be tax exempt, thus inducing these family farmers to sell their land for a price less than what they might have otherwise asked.

Secondly, the Family Farm Entry Act would not serve to duplicate existing government programs. The Act requires that before becoming eligible for assistance under the various state programs, each prospective farmer must first seek and be turned down for assistance from private lending institutions or FmHA and SBA. Also, due to existing financial and manpower shortages in FmHA—and thwarted attempts by myself and others to secure an increase in these FmHA resources—I do not believe that FmHA could handle the increased workload that would result if their authority was extended to accommodate the objectives of the Act.

Lastly, I am confident that implementation of the Act will not result in the creation of an additional layer of bureaucracy at either the federal or state level. In fact, I have received valuable assistance from Iowa Secretary of Agriculture Robert H. Lounsberry in assessing the resources which would be required from his department in implementing the program. In a letter dated March 9, 1979, Secretary Lounsberry stated that "we will be able to administer such a program with one additional person who will be working * * * in a clerical position to handle the extra paper work involved with administering the program."

I might add, Mr. Chairman, that I am particularly hopeful that the program can be administered with minimal paperwork requirements, especially for the applicant farmer.

I fully realize that the Family Farm Entry Act must be given further and extensive scrutiny in order to examine its likely ramifications and desirability, and I am hopeful that the House Agriculture Committee will give the Beginning Farmers Entry Assistance Act similar review.

Finally, I wish to make clear that the objectives of the Family Farm Entry Act address only one facet of the current agricultural dilemma—that of the problems encountered by beginning young farmers. We should not lose sight of the fact that if aspiring farmers, as well as established farmers, are to maintain a successful farming operation, significant changes must occur in our existing agricultural policy. New markets for our farm produce should be explored, important revisions must be made in our production adjustment and price support policies, tax laws which enhance the trend toward bigness and concentration have to be reformed, and current conservation practices must be reviewed.

I appreciate this opportunity to submit my comments on the Family Farm Entry Act, Mr. Chairman, and again wish to commend you and Senator Nelson for the outstanding leadership role which you have played in this effort.

STATEMENT OF ALEX P. MERCURE, ASSISTANT SECRETARY FOR RURAL DEVELOPMENT, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, I appreciate the opportunity to discuss with you ways in which we can encourage and assist people who want to be farmers to become farm owners.

We in the Department of Agriculture share fully your views on the merits of the family farm as a producer of food and fiber and as a stabilizing force in American society. We agree that people who have the ability, interest, and other attributes to become successful farmers should not be excluded simply because they lack the financial resources to begin.

We further believe that we have the tools in hand to make this farm ownership possible and that additional legislation is not needed at this time. Therefore we do not support S. 582.

The tools were included in legislation that was signed into law by the President only last August 4, a law that gave impetus to the limited resource farm loan program and another program of guaranteed farm ownership loans.

Both have now been fully implemented and, although yet quite new, both show early signs of greatly expanding opportunities for new farmers.

The limited resource program is just reaching the "take off" point since being launched in November. The guaranteed loan program is not as far advanced at this point, but it has just been put into full course.

Let's look at the limited resource plan first. Final rules went out in November. Because our county and state offices were fully occupied in processing emergency and economic emergency loans authorized by the same bill, the limited resource plan did not meet with a borrower's rush at the beginning.

Starting from zero in December, the number of applications approved in the next 14 weeks, ending March 14, reached 1,112 for ownership loans totaling \$82.5 million. Operating loans totaling 1,436 for \$41.1 million were approved.

To help emphasize the potential of this unique approach to beginning farm ownership, we set a goal of 25 percent of available funds—\$200 million each for ownership and operating loans out of a total of \$1.6 billion—for it.

As might be expected, some states are reaching the target quicker than others. Missouri, with 98 limited resource farm ownership loans totaling \$6.8 million, is well over the 30 percent mark. So is Vermont with 23 loans. Others above or approaching the 25 percent goal are Minnesota, Kansas, North Carolina, and Oregon.

Some states, where demand for FmHA loans is unusually strong such as Wisconsin, have such heavy backlogs of applications for regular loans that the limited resource loans have not yet shown up as large percentages.

We are finding many variations of borrowers who, by the way, average in their thirties as against the average age of 55 for farmers nationally.

For example, an 18-year-old from North Carolina who began 2 years ago on a \$1,700 youth loan, received a \$21,000 limited resource loan to develop a feeder pig operation on his father's farm.

Another example: A 37-year-old mother of three small children in North Carolina borrowed \$28,000 for operating expenses and \$2,100 for family living expenses for her first year of raising 175 acres of corn, soy beans, and tobacco on a farm she is working as a tenant. She will pay all expenses and keep three-fourths of earnings.

A New York woman, whose husband was disabled in a bus accident, received a \$90,000 loan to buy and a \$60,000 loan to operate a dairy farm. A Louisiana man received \$62,000 to buy and \$10,000 to operate a soy bean farm.

You can see that the limited resource program, with a direct and substantial subsidy to the borrower, is taking hold. The interest rate of 3 percent for the first 3 years and 5 percent for the next 2 years on real estate and 5 percent for the first 3 years on operating loans. This substantially reduces the borrower's cost of credit.

The guaranteed loan program received its wings a little later, so to speak, but it is now off the ground. The fiscal 1979 budget includes \$50 million for farm ownership and \$25 million for operating loan guarantees. We have recommended the same amounts for fiscal 1980.

These loans can be guaranteed up to 90 percent. As a rule, many who qualify for a regular insured loan may qualify for a guaranteed loan. Interest, of course, would be negotiated between the applicant and the lender.

We are emphasizing the need for potential borrowers to be appraised of this opportunity and, as public awareness expands, we expect this program to grow at a pace similar to that of the limited resource plan. I might note that the Farmers Home Administration less than 2 weeks ago signed an agreement with the Farm Credit Administration under which the FmHA will guarantee loans made by the Federal Land Banks and Production Credit Association.

There are other advantages in current programs. One, a built-in delivery system, already is at work and there would be no need for additional personnel or administrative costs or layers of government.

There is no need to consider reimbursement to the states, which would be necessary under S. 582 because most states operate under personnel and budget limits. This is of special importance at a time of growing interest and rising demands for budgetary restraints.

To sum up, we believe the limited resource loans, insured loans at cost of money, and guaranteed loan programs meet the principal criteria for a plan to help beginning farmers.

They make financial assistance available. They reduce the cost to the borrower who needs start-up assistance just like most business ventures. They do not impose additional financial burdens on any other level of government. They do not add new layers of bureaucracy. They provide for sound and prudent management by providing for clear-cut mortgage security. And borrowers throughout the United States have an existing office with staff available now to assist them.

We believe these programs will work. We are striving to make them succeed, and a reasonable amount of time is all we need. Many of the authorities to assist family farmers became law only 7 months ago.

STATEMENT OF DR. ROLLIN DENNISTOUN, DEPUTY COMMISSIONER OF AGRICULTURE, MINNESOTA DEPARTMENT OF AGRICULTURE, ST. PAUL, MINN.

I appreciate this honor and opportunity to appear before you to present information on the Minnesota Family Farm Security Program and also to present views on Senate File 582.

The Minnesota Family Farm Security Act was enacted into law by the Minnesota Legislature in 1976 and is found in Minnesota Statutes, Chapter 41. It is to assist farmers in obtaining credit for the purchase of farm real estate. By enacting this law, Minnesota became the first state, and still is one of the very few states, to deal with credit problems encountered by beginning farmers as a result of the tremendous increases in the price of farm real estate over the past five to six years.

The Act provides the Commissioner of Agriculture with the authority to give two types of assistance to farmers purchasing farm real estate. First, the Commissioner is authorized to pay lender's 90 percent of the sums due and payable under a first real estate mortgage or seller/sponsor loan, in the event of a loan default by a program participant. Second, the Commissioner may provide direct financial assistance to farmers by agreeing to pay to the lender a payment adjustment equal to four percent interest on the principal balance of the Family Farm Security Loan. After the term of the loan the borrower is required to repay the state for all sums advanced as payment adjustments without the interest.

Since enactment of the legislation five amendments have been adopted which have improved the Family Farm Security Program. These may be summarized as follows:

1. The lender does share in the proceeds from the sale of land following a default on a Family Farm Security Loan up to the limit of the sales agreement, but only after the state has been paid in full. Any remaining balance after the lender receives his full amount goes to the state general fund.

2. A first real estate mortgage is no longer required on seller/sponsored loans.

3. Sellers now have the option of accepting the state loan guarantee or to retain the property after repaying the state for sums advanced as payment adjustments in the case of default.

4. Initially loans made under the Act for terms of 10 years or less had to be amortized with equal annual payments. This provision has been eliminated.

5. All of the interest received by the seller in a seller/sponsored loan has been exempted from Minnesota income tax. This exemption is effective for the duration of the contract, however, the amendment is effective until January 1, 1982, when it may be reconsidered by the Minnesota Legislature.

The impact of amendment number 5 has perhaps been the most significant in attracting applicants and also in attracting seller/sponsored loans.

Briefly, the requirements necessary for a Family Farm Security Loan may be summarized as follows:

1. The applicant must live in Minnesota after the loan is granted.

2. The applicant must possess the ability to manage and operate the proposed farm.

3. The applicant must agree to participate in a farm management program.

4. The applicant must have a net worth of less than \$50,000 (net worth is the total of the purchase prices of all assets minus liabilities and depreciation).¹

5. The applicant must demonstrate the need for a guaranteed loan by detailing possible financial assistance or the possibility of a non-guaranteed loan from any lender.

6. The applicant must present financial statements for the past two years.

7. The applicant must prepare a cash-flow chart to show the ability to repay the proposed farm loan.

8. The applicant must be credit worthy.

9. The applicant must have machinery and equipment available, plus operating capital or a line of credit to enable him to operate the proposed farm.

10. The applicant must have farming as his/her principal occupation.

Following are additional statistics relating to the Minnesota Family Farm Security Program.

¹ The Minnesota Legislature is considering raising the net worth limit to \$75,000.

Statements:	<i>Figures</i>
1. Date first loan was made.....	Mar. 10, 1977.
2. Number of loans as of Mar. 31, 1979.....	115
3. Dollar range of loans.....	\$18,000 to \$430,000.
4. Total amount loaned as of Mar. 31, 1979.....	\$17,381,537.
5. Range of acreage involved in loans.....	6.7 acres to 540 acres.
6. Total acres purchased.....	17,572.
7. Number of lender sponsored loans.....	18.
8. Number of lender, seller/sponsored loans.....	9.
9. Number of seller/sponsored loans.....	88.
10. Primary enterprise each loan recipient will be involved with:	
Dairy.....	39.
Beef.....	22.
Hogs.....	43.
Crops.....	10.
Poultry.....	1.
11. Number of recipients submitting first net worth statement. (Net worth statements were not required for loans approved after September 1978, because of the nearness to the end of the calendar year.).....	51.
12. Range of net worth.....	\$15,344 to \$95,790.
13. Cost of administration:	
1st year.....	\$74,300.
2d year.....	\$83,324.

There are at least four farm management principles that apply to low equity farming. These may be summarized as:

1. Returns on the most limiting resource must be maximized.
2. Labor intensive enterprises must be selected in order to make a living when capital is short.
3. Cash flow outlay commitments needed to gain control of necessary capital assets should be minimized when capital is short.
4. Risks of large losses should also be minimized.

Historically, the ranking according to returns to different capital expenditures in agriculture have been:

1. Operating costs expended on recommended practices,
2. Investment in livestock and livestock facilities, especially hogs,
3. Investment in machinery and equipment,
4. Investment in land. (However, the last five to six years have given excellent growth returns in land prices because of the tremendous increase in value.)

Relative to land purchases under most alternative methods, the Minnesota program does provide for reduced payments during the early years of the loan at the expense of increased payments for later years.

Because of the 20 year term limit on loans, the initial downpayment must be held to a minimum to permit an operator with a new worth of under \$50,000 to retain some equity in machinery and livestock.

The basic objective of the Minnesota Family Farm Security Act and of Senate File 582 is as we see it, to assist individuals in becoming established in farming.

At the present time, most applicants are what might be termed low-equity individuals. Also at the present time, land must be considered as a good "growth stock."

Whether or not this combination of factors is in the long run best interest of the present loan recipients is unknown. The answer to this will be determined only after five, ten or even 15 years have passed and the results of the program known at that time.

Now Mr. Chairman and members of the committee, I would like to comment briefly about Senate File 582. My comments will attempt to address this proposed legislation from the standpoint of a state agency that has had nearly three years of experience in administering legislation that is somewhat related.

We certainly support the intent and purpose of the proposed Act. Because to paraphrase an earlier American, we too are of the opinion that unless the rural economy of this nation remains strong and vital before long grass will grow in the streets of more and more cities of this nation.

Section 103, (a)—of the proposed legislation contains the term "Family Farm" and further makes the statement that "of a size sufficient to be maintained and operated by such individual and members of his or her family or with no more than the equivalent of one person year of hired labor." Agriculture and farming in these United States is extremely diverse. This type of wording suggests to us that restrictions could be placed upon the size of the operation. Then would it be an efficient operation? Also, does this limit the management potential of young people?

Section 103, (b)—attempts to define "full-time family farmer." We suggest that this definition and that of paragraph (a) contain some inconsistencies and conflicting possibilities. Again, this may be a matter of interpretation, but having worked with a number of federal agencies over the years we are concerned that the interpretation would not be the type that most states would find advantageous as they attempt to develop programs of this kind.

Section 103, (h)—defines the term "State Agency." We suggest that the proposed legislation is not restrictive enough and that it should specifically state that the state agency be the agency responsible for agriculture and agricultural regulations. For example, we doubt very much that the Minnesota program would have been enacted or that it would have gotten off of the ground to the extent that it has if the program were being administered by the Department of Taxation, the Department of Economic Development, or the Department of Natural Resources.

Section 205, (b)—states that the Advisory Committee shall be designated or appointed by the governor of the state. We suggest that the Advisory Committee be appointed by the Commissioner, Secretary, or Director of the responsible state agency and that the terms of the Advisory Committee be staggered so that not all could be replaced at one time. Many states have laws requiring that persons appointed to such committees must serve coterminously with the governor. This is a program where not all of an Advisory Committee should be replaced at one time.

Section 205, (d)—relates to "the settlement of family size farms generally not larger than average family farms for the area * * *". Again, we suggest that this is unnecessarily restrictive and could well limit an individual who has outstanding management capabilities. For example, in Minnesota this type of restriction would have prohibited the 540 acre applicant from receiving a loan or at least would have subjected him to much greater scrutiny than would be really necessary.

Section 302, (a)—refers to applicants "entering farming on a full-time basis for the first time during the ten years prior to the date of application." This provision is again unclear and appears to discriminate against those individuals who have been renting and farming on a full-time basis for any of the ten years prior to the date of application.

Section 302, (c)—discusses the need for applicants to demonstrate that they are qualified to operate a family farm on a full-time basis. Such qualification refers to direct on-farm experience for not less than one year. Yet, Section 302 (a) refers to the applicant entering farming for the first time during the past ten years.

Again, this may be a matter of interpretation, however, we suggest that there is need for further clarification because the two paragraphs do appear to conflict.

Section 502—addresses the funding of the proposed Act. It appears that states with programs of special merit or those addressing special needs will receive a major portion of the federal funds. However, there could be instances in which other states might receive a greater amount because the bill addresses the total farm population of all of the states with approved programs. Perhaps a state maximum should be considered.

The statement "sustain traditional agriculture" also appears in the record that we have reviewed. What is traditional agriculture? In the late 1930's I helped my parents operate some 400 acres with horsepower. That was considered traditional agriculture at that time. Today, that would be obsolete agriculture. Perhaps what needs to be considered is the operation of modern agricultural farms in the manner most efficient and capable of not only maintaining, but of improving rural America.

Further, today's farm operator must be more than just a producer for the owner/operator or the renter/operator. He must be a producer for himself and for a number of others because the non-farm population of this nation does not and I repeat does not and will not return to earlier methods of food production, because they had the necessities provided to them by our agricultural producers, even though the number of those producers has continued to decline.

The Farmers Home Administration was created years ago to assist primarily "beginning" or "low equity" individuals in getting established in farming. Over the years this agency has been short of funds and has been caught up in the Washington maze of the bureaucratic structure, including regulations, directives and guidelines.

The Minnesota program requires that the administrator visit the applicants and obtain first hand information, not only from the applicant, but from the seller and the business community of the applicant. Further a seven member state committee is much more knowledgeable about local situations than one or two staff members operating under Washington direction.

Basically then, we believe that states, in order to operate an effective and efficient program, must be as free as possible of federal requirements.

The Minnesota program does, we believe, operate with a minimum of restrictions. Senate File 582 must be structured to enable the states to be as free as possible of federal pressures and requirements.

We believe that the qualifications of the Advisory Committee are extremely important and we believe that they must have freedom and be free of pressures or political influence in order to make recommendations that are expected of them. We believe that paperwork must be kept to a minimum, but at the same time we recognize that we are dealing in real estate transactions and thus certain legal requirements must be met.

We do not believe that the Minnesota Legislation or the proposed Federal Legislation will correct "mismanagement." Therefore, this again points out the need for local involvement so that at least in the majority of instances the Advisory Council will be able to make recommendations that in the long run are in the best interests of all parties.

We appreciate the opportunity to present this information and these comments to the Senate Committee on Agriculture, Nutrition, and Forestry and the Senate Select Committee on Small Business. We will attempt to answer any questions that you may have.

STATEMENT OF MYRON JUST, COMMISSIONER OF AGRICULTURE, NORTH DAKOTA
DEPARTMENT OF AGRICULTURE, BISMARCK, N. DAK.

Mr. Chairman, I am pleased to appear in support of the Family Farm Entry Act. I believe this program provides desirable flexibility so that each state could initiate innovative approaches to financing beginning farmers. The loan guarantee feature of the proposal is a significant aid to states who wish to provide lending programs for beginning farmers.

It is extremely important that programs of this nature are put into effect immediately. For example, North Dakota has lost about half of her farmers since the 1930's. One of the reasons for this is that it has been extremely difficult in the past decade for new farmers to enter farming because of the high capital requirements. As North Dakota farmers quit or retired, their farms were taken over by larger neighbors instead of new farmers.

A study of land sales in 1977 conducted by North Dakota State University showed that about 3 percent of the farm titles in North Dakota were transferred that year. That means about 1200 farms. Sixty-five percent of those 1200 farms or 780 of them, representing 66 percent of the total acreage sold, were purchased for expansion by someone who already owned land. Another 20 percent of those sales were to nonfarmers, meaning professionals, businessmen, city workers and others. That left only 15 percent of those farms available to new, beginning farmers. That means that only 180 farms were available to beginning farmers in that year. Only 10 percent of the farm units purchased in 1977, with an average size of 465 acres, were purchased to be used as whole farm units. The remaining 90 percent were added on as expansion to existing farms.

These figures show that steps need to be taken to make farmland available to beginning farmers if we want to halt the loss in farm numbers. Why should we be concerned? In our economy, we report housing starts as a measure of economic health. Farming stops or the lack of farming starts show ill health in the rural economy.

North Dakota is somewhat unique in that on July 18, 1919, it opened its own bank, the Bank of North Dakota. It was the state's answer to its farmers who felt they were being taken advantage of by out of state interests in financing their operations. Hence, the Bank of North Dakota was created "for the purpose of encouraging and promoting agriculture, commerce and industry."

From its inception, the Bank of North Dakota has not entered into competition with other banks, but cooperates with and assists them in developing and coordinating financial services needed by the citizens of the state. The Bank does not advertise and cannot make direct commercial loans. It can make direct farm real estate loans and direct loans which are insured by the federal government (federally insured student loans, federal home loans, veterans administration loans).

It may also participate with financial institutions in cases where the lead institution makes a loan and sells a portion to the Bank of North Dakota. This enables financial institutions to serve customers they otherwise would not be able to. The Bank of North Dakota has grown to a highly respected institution in the United States. It ranks number 40 in agricultural loans in the nation. Its activities are supervised by the Industrial Commission, which is a board of directors made up of the Governor, the Attorney General and myself as Commissioner of Agriculture.

On July 1 of 1978, the Bank of North Dakota initiated a new program—the Beginning Farmers' Program, which is a combined effort of the Bank of North Dakota and the Farmers Home Administration to assist beginning farmers in purchasing farm land. By joining a statewide network of Farmers Home Administration County Supervisors and a centrally located Bank of North Dakota staff, along with Bank of North Dakota and Farmers Home Administration funds, many farmers are able to receive real estate financing not otherwise possible because of the reduced interest rate made available.

North Dakota law allows the Bank of North Dakota to make loans secured by a first mortgage on farm real estate provided the loan does not exceed 50 percent of the appraised value (the recently concluded North Dakota Legislative Session raised that percentage to 65 percent of the appraised value effective July 1, 1979). Farmers Home Administration instructions allow second mortgage loans when another lender such as the Bank of North Dakota is willing to loan a portion of the funds. Therefore, the Bank of North Dakota and Farmers Home Administration together can lend up to 100 percent of the Farmers Home Administration appraisal of the farm real estate to qualified farmers.

Farmers Home Administration is responsible for the initial credit inquiries, appraisals and projected income and expense statements. The application and supplementary information are then forwarded to the Bank of North Dakota for analysis. Once the application is acted on and a commitment is made, the loan awaits a joint funding date. Separate loans are made to the borrower by the Bank of North Dakota and Farmers Home Administration, but the loans are closed on the same day by the same attorney. This saves considerable closing cost to the borrowers and to the bank as less staff is needed.

The general eligibility guidelines are that the applicant must be an actual farmer who intends to remain a farmer. The applicant must spend over 50 percent of working time on the farm and receive over 50 percent of net family income from the farming operation. The applicant must have either farm management experience or training. The applicant must be starting in farming or expanding into a large enough unit capable of providing an adequate livelihood for the farm family and for retiring the farm debt.

Terms of the loans may be up to 40 years. The rate to beginning farmers may deviate up to 2 percent below the rate guide for the first five years. All rates are set at the loan closing. Principal payments may be deferred the first two years upon special request.

We believe this program is an excellent example of how a state program can work in cooperation and harmony with the Farmers Home Administration program to supplement the federal resources with state effort and to provide for the most efficient use of personnel and lending services of both the federal and state agencies.

Since its beginning on July 1 of 1978, this program has completed 62 loans totaling \$3,053,400 to beginning farmers. Another 55 loans totaling \$2,854,050 have been committed. The average size of the loans is \$50,000. Administrative costs of the program have been only \$7,600 (approximately $\frac{1}{4}$ of 1 percent).

The recently concluded North Dakota Legislative Session has adopted an additional measure which we believe will provide significant incentives for landowners to choose beginning farmers when making decisions about selling or leasing farmland.

It has been a conclusion of our Department that one of the greatest stumbling blocks to the beginning farmer is the availability of land. Because of their own insecurities, often retiring farmers, widows, etc. are reluctant to sell their land. They find it difficult to face the decisions that are necessary. They think perhaps they need the land in order to take care of their own future financial needs and they are unwilling to face the taxes that they know will be due on the income derived from this sale. When they do make a decision to sell the land, often they feel they must make the effort to identify the highest bidder. Of course, the highest bidder is rarely a beginning farmer with a lot of desire but very limited financial resources. It is usually an established farmer who is in a position to expand and to spread the higher cost of the new land acquisition across lower priced land

acquired at an earlier time. The new North Dakota legislation is an effort to tip the balance psychologically and economically of these land sales to provide greater opportunity to the beginning farmer. It is a positive incentive to help the landowner to make a decision regarding land transfer and secondly to choose the beginning farmer.

I am making copies of this new legislation available to the committee. Essentially, within limits and within definitions of the beginning farmer, the legislation provides income tax exemptions on capital gains income received from land sales, if the landowner chooses to sell to a beginning farmer. It also provides for income tax exemptions of income from interest on contract for deed sales, if the interest on the contract for deed is 6 percent or lower. And thirdly, it provides for income tax exemptions on income derived from three year leases to beginning farmers.

I believe this legislation is very positive and that it will provide a significant incentive for landowners to choose beginning farmers when making land transfer decisions. Any bill designed to place more young farmers on our land, no matter what the initial cost, will reap benefits to our communities hundreds of times over the initial cost of a few income tax dollars. USDA statistics show that each time 7 families are lost in a community a business goes under. More importantly, however, young beginning farmers will spend their dollars in the community in which they live whereas very large farmers often travel great distances to other communities or states to make purchases. I would suggest to this committee, Mr. Chairman, that it consider applying the concept of the legislation I have described to the federal level. It would seem to me both possible and desirable to provide exemptions to federal capital gains tax liabilities if a landowner chooses to sell farmland to the beginning farmers.

The loan guarantees, which would be provided by the Family Farm Entry Act, would fit beautifully into North Dakota's Beginning Farmer Program. It would make it possible for this program to provide even greater capital availability to beginning farmers than is possible under existing circumstances.

At the present time, the Bank of North Dakota is the fifth largest federally insured student loan lender in the United States. We believe that the proposal which you are considering would work similar to the student, loan program and that there is no reason why the Bank of North Dakota could not be very much involved in direct loans to beginning farmers similar to its involvement in the student loan program.

Our State Department of Agriculture has made this issue of finding solutions to problems of entry into agriculture an important priority. Our Department is currently conducting a survey of farmers who have started operation within the past five years (see attached survey form). This survey seeks to develop a profile of the beginning farmer in our state. It includes the general and personal information regarding the farmer's operation. It includes several questions about land acquisition, the availability of credit, the equipment that the farmer uses, and how they have acquired that equipment, several questions about management of the farm and the various federal and state programs that the farmer is involved with, as well as the cooperatives and farm organizations that the farmer participates in. The survey also asks for a listing of the problems that face beginning farmers and it solicits proposals for solutions to those problems. This survey is currently being analyzed with the assistance of the AGNET computer through the North Dakota State University.

We believe the analysis of this survey will give us an accurate profile of the beginning farmers of our state and that it will also present several suggestions for solutions to problems faced by beginning farmers. We are hopeful that this analysis will make it possible for us to be more innovative in developing further solutions. We think it will make it possible for us to be good cooperators with the federal government in the event the Family Farm Entry Act becomes law.

I commend the sponsors of this legislation for your interest in this most important problem. The relationship of man and the soil is an age old concern. I sincerely believe that the charge "to be good stewards of the soil" applies not only to those who daily till it and work with it, but also to those of us who develop public policy which determines the size of farms and the number of farms in our nation. The "American Dream" which lured our ancestors to America was partially the opportunity to own a piece of land, work for themselves, and enjoy the personal freedoms of the Bill of Rights. Thomas Jefferson, 200 years ago, agreed that a broad distribution of property and wealth would make democracy work best. A hundred years later, the Homestead Act provided many immigrants that opportunity. The current and future generations deserve an opportunity to farm just as I and previous generations have been aided in that pursuit by government.

[House bill No. 1306]

AN ACT to create a new subdivision to subsection 1 of section 57-38-01.2 of the North Dakota Century Code, relating to a reduction in the taxable income for interest received on certain contracts for deed; and to provide an effective date

Be it enacted by the Legislative Assembly of the State of North Dakota:

SECTION 1. A new subdivision to subsection 1 of section 57-38-01.2 for the 1977 Supplement to the North Dakota Century Code is hereby created and enacted to read as follows:

Reduced by the amount of interest received during that taxable year on a contract for deed on the sale of eighty or more acres of agricultural land to a beginning farmer. The contract for deed must extend for not less than fifteen years and have an annual interest rate of not more than six percent. In order for an individual, estate, or trust to qualify for this reduction, the taxpayer must obtain a notarized statement from the buyer containing a list of the buyer's assets and debts and giving the buyer's net worth, together with such other information as the state tax commissioner may require. The value placed on any real property located in North Dakota and owned by the buyer shall be the amount listed as the current market value on the most recent real estate tax statement for that particular piece of property. In determining the net worth of any person, including his dependents and spouse, if any, for purposes of this subdivision, the value of their equity in their principal residence, the value of one personal or family motor vehicle, and the value of their household goods, including furniture, appliances, musical instruments, clothing, and other personal belongings shall not be included. This statement shall be filed along with the income tax return. For the purposes of this subdivision, "beginning farmer" means any person who:

- (1) Is a resident of this state.
- (2) Receives more than half his annual income from farming, unless the person initially commences farming during the tax year for which an adjustment will be claimed under this subdivision.
- (3) Intends to use any farmland that he wishes to purchase or rent for agricultural purposes.
- (4) Has had adequate training, by experience or education, in the type of farming operation which he wishes to begin.
- (5) Has, including the net worth of his dependents and spouse, if any, a net worth of less than fifty thousand dollars.

SECTION 2. EFFECTIVE DATE.—The provisions of this Act shall be effective for taxable years beginning on or after January 1, 1979.

[House bill No. 1475]

AN ACT to provide for income tax deductions as incentives for landowners to sell or lease land to beginning farmers; and to provide an effective date

Be it enacted by the Legislative Assembly of the State of North Dakota:

SECTION 1. DEFINITIONS.—As used in this Act, unless the context otherwise requires:

1. "Agricultural purposes" means production of agricultural crops, livestock or livestock products, poultry or poultry products, and fruit or other horticultural crops.

2. "Beginning farmer" means any person who:

- a. Is a resident of this state.
- b. Receives more than half his annual income from farming, unless the person initially commences farming during the tax year for which a deduction will be claimed under this Act.
- c. Intends to use any farmland that he wishes to purchase or rent for agricultural purposes.
- d. Has had adequate training, by experience or education, in the type of farming operation which he wishes to begin on the purchased or rented land referred to in subdivision c.
- e. Has, including his dependents and spouse, if any, a net worth of less than fifty thousand dollars, not including the value of their equity in their principal residence, the value of one personal or family motor vehicle, and the value of their household goods, including furniture, appliances, musical instruments, clothing, and other personal belongings.

3. "Landowner" means any person owning land in North Dakota, except that any person who acquires such land for the purpose of obtaining the income tax deduction provided for in this Act shall not be deemed to be a landowner.

SECTION 2. INCOME TAX DEDUCTION FOR SALES TO BEGINNING FARMERS.—Any landowner who sells land consisting of twenty acres or more to a beginning farmer shall be entitled to a reduction in his taxable income for the year in which the sale occurred in an amount equal to fifty percent of any income realized and otherwise subject to state income taxes after consideration of any capital gains treatment, up to a maximum of fifty thousand dollars.

SECTION 3. RENT FROM BEGINNING FARMERS EXEMPT FROM INCOME TAX.—Fifty percent of any income received and otherwise subject to taxation for state income tax purposes resulting from the rental of any land consisting of twenty acres or more by a landowner to a beginning farmer under any agreement providing for a lease for at least three years shall be exempt from income taxes provided that no landowner may exclude more than twenty-five thousand dollars pursuant to this section in any tax year nor may any landlord claim this deduction for agreements with more than one beginning farmer for rentals on the same tract or parcel of land.

SECTION 4. CLAIM FOR INCOME TAX DEDUCTION FOR SALE OR RENTAL TO A BEGINNING FARMER.—In order for a taxpayer to qualify for the deductions provided in this Act, the taxpayer shall file with his state income tax return a notarized statement from the beginning farmer who purchased or rented land from him containing a list of the assets, debts, and net worth of the beginning farmer, together with such other information as the state tax commissioner may require. The value placed on any real property located in North Dakota and owned by the buyer shall be the amount listed as the current market value on the most recent real estate tax statement for that particular piece of property. In order for a taxpayer to qualify for the deduction for rental income provided in section 3 of this Act, the taxpayer shall certify on his tax return that any rental arrangement with any other person was not canceled for the purpose of qualifying for this deduction.

SECTION 5. EFFECTIVE DATE.—The provisions of this Act shall be effective for taxable years beginning on or after January 1, 1979.

GENERAL AND PERSONAL

1. What year did you start farming? _____
2. How old are you? _____
3. Years of education? _____
4. Marital status? _____ What per cent of farm labor does spouse contribute? _____
Dependents? _____ How many? _____
5. County of residence? _____
6. What type of farming operation do you have and its size?

Diversified _____	Dairy _____	Under 500 acres _____
Grain _____	Hogs _____	500 - 1000 _____
Cattle _____	Sheep _____	1000 - 1500 _____
		Over 1500 _____
7. Average gross income? 1973 _____ 74 _____ 75 _____ 76 _____ 77 _____
Average net income? 1973 _____ 74 _____ 75 _____ 76 _____ 77 _____
8. Do you have any off-farm income? Yes _____ No _____
If yes, is it temporary _____ or continuing? _____
What per cent of total income does it contribute? _____
9. Source of your net worth?
Inheritance _____ Gift _____ Own work and savings _____ Others' work and savings _____
10. Estimated total assets _____ Estimated total liabilities _____
11. Generally speaking, what types of goals did you set for yourself when you began farming in terms of acreage and growth?

- Have you met those goals? Yes _____ No _____
How have they changed?

12. Are you engaged in a farming partnership? Yes _____ No _____
With whom? _____
13. What is the average amount of property taxes on your land per acre? _____
What is the average amount of total property taxes paid for years 1973 through 1977? _____

LAND ACQUISITION

1. Did you get help in starting from family _____ friends _____ other(specify) _____?
2. Where and how was land obtained? Auction _____ Private sale _____ Inherited _____
Bid _____ Other(specify) _____
3. What per cent of your land do you own? _____ Total owned acres _____
What per cent of your land do you rent? _____ Total rented acres _____
If you rent land, what type of rent are you paying? Cash _____ Share _____
What does it cost you to rent in dollars per acre _____ or share of crop _____?
4. How difficult is it to obtain land in your area? Easy _____ Hard _____ Impossible _____
5. What is the average price of land for sale in your area? _____
6. Price range of that land per acre? Highest _____ Lowest _____

AVAILABILITY OF CREDIT

1. Where was credit obtained? FmHA _____ Private Institutions _____ Family _____
Land Bank _____ Insurance Companies _____ Other(specify) _____
2. Type of loan? Long _____ Intermediate _____ Short _____
3. What per cent of interest was charged? _____ %
4. What is your source and per cent of total operating capital?
Savings _____ % Own resources _____ % Loans _____ %
5. Did you make a down payment on your land? Yes _____ No _____ What per cent down? _____
6. Have you attempted to secure money for the purchase of a farm? Yes _____ No _____
Where? Federal Agency _____ FmHA _____ Land Bank _____ Other(specify) _____

EQUIPMENT INFORMATION

1. Where was the majority of your equipment obtained?
Dealer _____ Auction _____ Private _____ Family _____
2. How was this equipment obtained?
Buying _____ Leasing _____ Borrowing _____ Work agreement _____ Other _____
If borrowing, work agreement or other were used, please state the terms of the agreement and the cost.

2. What effect has the new Federal Farm Program had on your operation?

3. How many farmers in your area have started within the last five years?

SOLUTIONS

1. What types of changes in legislation do you believe would benefit you the most?

2. After getting started in farming what could the State Government do to help you?

3. What do you see as the greatest needs in the future for the beginning farmer?

Although we feel this is a comprehensive survey, we realize that there are areas you may wish to discuss which we have not addressed.

If you want to discuss any of the areas please list your phone number (not your name) and we will contact you.

This might serve to make our survey more personal.

Thank you for your cooperation.

DEPARTMENT OF AGRICULTURE
MYRON JUST, Commissioner
BISMARCK, N. DAK. 58501

TELEPHONE # _____

STATEMENT OF ROBERT J. MULLINS, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

I am Robert J. Mullins, Assistant Director of Legislative Services, National Farmers Union, 1012 14th Street, N.W. Washington, D.C.

National Farmers Union is pleased to respond to the invitation to appear before this joint hearing to express its views on S. 582, the "Farm Entry Assistance Act". At the outset I will say we fully support this legislation and commend Senator Nelson, Senator McGovern and their colleagues who are co-sponsoring this legislation.

At our recent national convention held in Kansas City, Missouri, March 11-14, 1979, National Farmers Union delegates adopted the following statement on land transfer:

"We call on Congress to enact the 'Farm Entry Assistance Act' which will provide federal guarantees for loans, leases and sales of land to individuals who are qualified to enter farming or ranching but who do not have or cannot acquire the financial assets to do so.

"We endorse the concept contained in the bill of a joint federal-state cooperative effort to assist beginning farmers and ranchers to acquire an economically viable family farm/ranch enterprise.

"Special reductions in capital gains should be provided retiring farmers and ranchers who make land available through the land transfer agency."

This is not a new policy position for the National Farmers Union. On June 10, 1976, National Farmers Union appeared before the Senate Subcommittee on Agricultural Credit and Rural Electrification in support of the "Young Farmers' Homestead Act of 1975" introduced in that Congress and subsequent ones by Senator McGovern. During the 95th Congress National Farmers Union supported a similar demonstration program, known as the "Family Farm Financing Act". We consider our support today of the "Farm Entry Assistance Act" a continuation of our long-standing dedication to the family farm system of agriculture.

The legislation before the Committees today addresses an acute problem, how do we get new farmers into business?

We all know the main burden for one wanting to get into agriculture on a first time and full time basis is the enormous capital outlay for land and equipment.

From March 1, 1975 to February 1, 1979 farm real estate values increased, nationwide, by 64.2 percent. In South Dakota the increase was a staggering 77.2 percent; in Wisconsin an even greater, 85.9 percent. Consider these other increases: Illinois, 111.1 percent; Indiana, 108.1 percent; Iowa, 102.8 percent; and Ohio, 114.7 percent during the same period. (The Committee will find these listings on "Attachment No. 1".) The lowest rate of increase, by farm production region, was in the South East, but even this was at a rate of 35.1 percent.

What this means for the beginning farmer wanting to purchase an average size farm in his state is an outlay for land alone, for example in Wisconsin of about \$158,172 (196 acres x \$807 per acre); in Iowa, \$408,240; in South Dakota, \$281,415. Regionally, the average cost of a farm varies from a low of \$114,989 in the Appalachian region, to \$579,913 in the Mountain region. (Attachment No. 2.)

Not only would enactment of this legislation provide the mechanism for beginning farmers to get into agriculture, but could also prove beneficial in addressing two other problems. First, the declining number of farms, and, secondly, the continuing loss of land from agricultural use.

Again, using the same time frame as my other comparisons, (March 1975 to February 1979) the number of farms in the continental United States declined by 6.5 percent or 161,150 in four years, from 2,487,220 to 2,326,070. (Attachment No. 3.)

An equally disturbing loss is that of our agricultural land.

Land in farms decreased by 13,965,000 acres from 1975 to 1979. We lost almost 3.5 million acres a year. (Attachment No. 4.)

During his speech at our national convention last month, Secretary Bergland called for a national dialogue to discuss the future of American agriculture and the family farm. The hearing today is a good beginning for that dialogue. In his speech, the Secretary made the following comment:

"We can act now to insure the kind of American agriculture we want in the years ahead. Or we can let matters take their course, with the probable result that we will wake up some morning to find out that we have forfeited our last chance to save those characteristics of the farm sector we believe are worth preserving."

The Farmers Union shares this concern, and we hope the Congress, the Administration and the American people will share this concern. The challenge that the Secretary issued is an important one. We believe that in creating a mechanism whereby we can perpetuate the ownership of America's farms and ranches in the hands of independent family operators, we will be making great progress in promoting and perpetuating our system of agriculture.

I am reminded that we have many allies in this struggle, the religious community educators, and members of Congress. I commend to the members of the Committee an editorial that appeared in the Washington Star, March 21, 1979, in support of the legislation before the Committee today. (Attachment No. 5.)

In closing, let me say, that National Farmers Union fully supports S. 582 and urges the Committee to report the measure expeditiously and Congress to pass it.

ATTACHMENT NO. 1

FARM REAL ESTATE VALUES¹ MAR. 1, 1975 TO FEB. 1, 1979²

State	Dollars per acre		Percent increase
	1975	1979	
Northeast:			
Connecticut.....	\$1,525	\$2,158	41.5
Delaware.....	971	1,725	77.7
Maine.....	341	485	42.2
Maryland.....	1,060	1,799	69.7
Massachusetts.....	961	1,366	42.1
New Hampshire.....	564	802	42.2
New Jersey.....	1,207	2,222	22.9
New York.....	510	642	25.9
Pennsylvania.....	734	1,245	69.6
Rhode Island.....	1,500	2,133	41.5
Vermont.....	462	657	42.2
Average.....			46.0
Lake States:			
Michigan.....	553	955	72.7
Minnesota.....	429	854	99.1
Wisconsin.....	434	807	85.9
Average.....			84.7
Corn Belt:			
Illinois.....	846	1,768	111.1
Indiana.....	720	1,498	108.1
Iowa.....	719	1,458	102.8
Missouri.....	396	674	70.2
Ohio.....	706	1,516	114.7
Average.....			104.7
Northern Plains:			
Kansas.....	296	437	47.6
Nebraska.....	282	470	66.7
North Dakota.....	195	306	56.9
South Dakota.....	145	257	77.2
Average.....			60.1
Appalachian:			
Kentucky.....	427	792	85.5
North Carolina.....	590	819	38.8
Tennessee.....	467	669	43.3
Virginia.....	558	864	54.8
West Virginia.....	300	472	57.3
Average.....			54.4
Southeast:			
Alabama.....	364	515	41.5
Florida.....	685	930	35.8
Georgia.....	474	609	28.5
South Carolina.....	467	635	35.9
Average.....			35.1

See footnotes at end of table.

ATTACHMENT NO. 1—Continued

FARM REAL ESTATE VALUES¹ MAR. 1, 1975 TO FEB. 1, 1979²—Continued

State	Dollars per acre		Percent increase
	1975	1979	
Delta States:			
Arkansas.....	\$419	\$571	36.3
Louisiana.....	512	763	49.0
Mississippi.....	379	520	37.2
Average.....			41.5
Southern Plains:			
Oklahoma.....	302	442	46.4
Texas.....	243	354	45.7
Average.....			46.1
Mountain:			
Arizona.....	111	134	20.7
Colorado.....	188	332	76.6
Idaho.....	339	485	43.1
Montana.....	112	186	66.1
Nevada.....	85	104	22.4
New Mexico.....	78	100	28.2
Utah.....	188	265	40.9
Wyoming.....	80	119	48.8
Average.....			46.1
Pacific:			
California.....	653	936	43.3
Oregon.....	250	330	32.0
Washington.....	350	586	67.4
Average.....			47.8
48 States.....	341	560	³ 64.2

¹ Average value per acre of land and buildings.

² Preliminary.

³ As computed by ERS, USDA.

Source: Supplement No. 1 to Farm Real Estate Market Developments, Mar. 20, 1979, National Economic Analysis Division, ERS, USDA.

ATTACHMENT NO. 2

AVERAGE COST OF A FARM BY STATE

State	Average		
	Acreage	Cost per acre	Price
Northeast:			
Connecticut.....	125	\$2,158	\$269,750
Delaware.....	206	1,725	355,350
Maine.....	215	485	104,275
Maryland.....	175	1,799	314,825
Massachusetts.....	135	1,366	184,410
New Hampshire.....	193	802	154,786
New Jersey.....	130	2,222	288,860
New York.....	222	642	142,524
Pennsylvania.....	150	1,245	186,750
Rhode Island.....	94	2,133	200,502
Vermont.....	294	657	193,158
Total.....			243,744
Lake States:			
Michigan.....	168	955	160,440
Minnesota.....	291	854	248,514
Wisconsin.....	196	807	158,172
Total.....			190,096
Corn Belt:			
Illinois.....	268	1,786	478,648
Indiana.....	189	1,498	283,122
Iowa.....	280	1,458	408,240
Missouri.....	273	674	184,002
Ohio.....	168	1,516	254,688
Total.....			325,804

ATTACHMENT NO. 2—Continued
 AVERAGE COST OF A FARM BY STATE—Continued

State	Average		
	Acreage	Cost per acre	Price
Northern Plains:			
Kansas.....	669	\$437	\$292,353
Nebraska.....	752	470	356,260
North Dakota.....	1,016	306	310,896
South Dakota.....	1,095	257	281,415
Total.....			325,238
Appalachian:			
Kentucky.....	150	792	118,800
North Carolina.....	125	819	102,375
Tennessee.....	145	669	97,005
Virginia.....	164	864	141,696
West Virginia.....	214	472	101,008
Total.....			114,989
Southeast:			
Alabama.....	236	515	121,540
Florida.....	394	930	366,420
Georgia.....	290	609	176,610
South Carolina.....	185	635	117,475
Total.....			185,541
Delta States:			
Arkansas.....	289	571	165,019
Louisiana.....	294	763	224,322
Mississippi.....	273	520	141,960
Total.....			176,130
Southern Plains:			
Oklahoma.....	479	442	211,718
Texas.....	872	354	308,688
Total.....			269,048
Mountain:			
Arizona.....	6,982	134	935,588
Colorado.....	1,433	332	475,756
Idaho.....	660	485	320,100
Montana.....	2,857	186	531,402
Nevada.....	4,495	104	467,480
New Mexico.....	4,169	100	416,900
Utah.....	1,049	265	277,983
Wyoming.....	4,875	119	580,125
Total.....			1,579,913
Pacific:			
California.....	538	936	503,568
Oregon.....	621	330	204,930
Washington.....	487	585	285,382
Total.....			338,916

¹Excluding Arizona and Idaho.

Source: Farm Numbers, December 1978, Crop Reporting Board, ESCS, USDA, Supplement No. 1 to Farm Real Estate Market Developments, March 20, 1979, National Economic Analysis Division, ERS, USDA.

ATTACHMENT NO. 3
NUMBER OF FARMS (NEW DEFINITION), 1975 AND 1979

State	Number		Percent change
	1975	1979	
Northeast:			
Connecticut.....	3,800	3,600	-5.3
Delaware.....	3,600	3,000	-16.7
Maine.....	6,800	7,600	+11.7
Maryland.....	16,400	16,000	-2.5
Massachusetts.....	5,100	4,800	-5.9
New Hampshire.....	2,600	3,000	+15.3
New Jersey.....	7,700	7,600	-1.3
New York.....	49,000	45,000	-8.2
Pennsylvania.....	67,000	59,000	-12.0
Rhode Island.....	6,620	6,700	+8.0
Vermont.....	6,300	5,900	-6.4
Average.....			-7.6
Lake States:			
Michigan.....	70,000	63,000	-10.0
Minnesota.....	104,000	104,000	0
Wisconsin.....	101,000	95,000	-6.0
Average.....			-4.8
Corn Belt:			
Illinois.....	114,000	107,000	-6.2
Indiana.....	94,000	89,000	-5.4
Iowa.....	130,000	121,000	-7.0
Missouri.....	127,000	118,000	-7.1
Ohio.....	101,000	97,000	-4.0
Average.....			-6.1
Northern Plains:			
Kansas.....	78,000	72,000	-7.7
Nebraska.....	67,000	63,000	-6.0
North Dakota.....	42,000	41,000	-2.3
South Dakota.....	43,500	41,500	-4.6
Average.....			-5.7
Appalachian:			
Kentucky.....	107,000	96,000	-10.3
North Carolina.....	105,000	99,000	-5.8
Tennessee.....	102,000	94,000	-7.9
Virginia.....	63,000	59,000	-6.4
West Virginia.....	20,000	19,500	-2.5
Average.....			-7.5
Southeast:			
Alabama.....	61,000	56,000	-8.2
Florida.....	35,000	35,000	0
Georgia.....	58,000	54,000	-6.9
South Carolina.....	36,000	35,000	-2.8
Average.....			-5.3
Delta States:			
Arkansas.....	60,000	58,000	-3.4
Louisiana.....	36,500	35,000	-4.2
Mississippi.....	68,000	53,000	-22.1
Average.....			-11.3
Southern Plains:			
Oklahoma.....	75,000	73,000	-2.7
Texas.....	175,000	159,000	-9.2
Average.....			-7.2

See footnotes at end of table.

ATTACHMENT NO. 3—Continued
NUMBER OF FARMS (NEW DEFINITION ¹), 1975 AND 1979—Continued

State	Number		Percent change
	1975	² 1979	
Mountain:			
Arizona.....	6,000	5,800	-3.4
Colorado.....	27,600	26,500	-4.0
Idaho.....	23,900	23,300	-2.6
Montana.....	23,100	21,700	-6.1
Nevada.....	2,000	2,000	0
New Mexico.....	11,300	11,200	-.9
Utah.....	12,400	12,200	-1.7
Wyoming.....	7,800	7,200	-7.7
Average.....			-3.7
Pacific:			
California.....	68,000	60,000	-11.8
Oregon.....	30,000	30,000	0
Washington.....	33,200	33,000	-.7
Average.....			-6.3
48 States.....	2,487,220	2,326,070	-6.5

¹ Places with annual sales of agricultural products of \$1,000 or more.

² Preliminary.

Source: Farm Numbers, December 1978, Crop Reporting Board, ESCS, USDA.

ATTACHMENT NO. 4
LAND IN FARMS (NEW DEFINITION ¹) BY STATES, 1975 AND 1979 ²

State	Thousands of acres		Percent change
	1975	1979	
Northeast:			
Connecticut.....	490	450	-8.2
Delaware.....	665	620	-6.8
Maine.....	1,610	1,640	+1.8
Maryland.....	2,855	2,805	-1.8
Massachusetts.....	670	650	-3.0
New Hampshire.....	550	580	+5.4
New Jersey.....	1,000	990	-1.0
New York.....	10,700	10,000	-6.6
Pennsylvania.....	9,600	8,900	-7.3
Rhode Island.....	63	63	0
Vermont.....	1,770	1,740	-1.7
Average.....			-5.2
Lake States:			
Michigan.....	11,500	10,600	-7.9
Minnesota.....	30,300	30,300	0
Wisconsin.....	19,300	18,700	-3.2
Average.....			-2.5
Corn Belt:			
Illinois.....	28,900	28,700	-.7
Indiana.....	17,000	16,900	-.6
Iowa.....	34,100	34,000	-.3
Missouri.....	32,400	32,300	-.4
Ohio.....	16,700	16,300	-2.4
Average.....			-.7
Northern Plains:			
Kansas.....	48,700	48,200	-1.1
Nebraska.....	47,900	47,800	-.3
North Dakota.....	41,690	41,690	0
South Dakota.....	45,450	45,450	0
Average.....			-0.4

See footnotes at end of table.

ATTACHMENT NO. 4—Continued

LAND IN FARMS (NEW DEFINITION¹) BY STATES, 1975 AND 1979²—Continued

State	Thousands of acres		Percent change
	1975	1979	
Appalachian:			
Kentucky.....	14,700	14,400	-2.1
North Carolina.....	12,500	12,400	-.8
Tennessee.....	14,000	13,700	-2.2
Virginia.....	10,300	9,700	-5.9
West Virginia.....	4,260	4,180	-1.9
Average.....			-2.5
Southeast:			
Alabama.....	13,800	13,200	-4.4
Florida.....	14,100	13,800	-2.2
Georgia.....	15,000	15,700	+4.6
South Carolina.....	6,800	6,500	-4.5
Average.....			-1.1
Delta States:			
Arkansas.....	17,000	16,800	-1.2
Louisiana.....	10,500	10,300	-2.0
Mississippi.....	15,500	14,500	-6.5
Average.....			-3.3
Southern Plains:			
Oklahoma.....	35,500	35,000	-1.5
Texas.....	140,000	138,700	-1.0
Average.....			-1.1
Mountain:			
Arizona.....	40,900	40,500	-1.0
Colorado.....	38,800	38,000	-2.1
Idaho.....	15,500	15,400	-.7
Montana.....	62,400	62,000	-.7
Nevada.....	8,990	8,990	0
New Mexico.....	47,000	46,700	-.7
Utah.....	12,850	12,800	-.4
Wyoming.....	35,200	35,100	-.3
Average.....			-.9
Pacific:			
California.....	34,300	32,300	-5.9
Oregon.....	18,850	18,650	-1.1
Washington.....	16,100	16,100	0
Average.....			-3.2
48 States.....	1,058,763	1,044,798	-1.4

¹ Places with annual sales of agricultural products of \$1,000 or more.

² Preliminary.

Source: Farm Numbers, December 1978, Crop Reporting Board, ESCS, USDA.

ATTACHMENT NO. 5

[Reprint from the Washington Star, Mar. 21, 1979]

RESCUING THE FAMILY FARM

The contribution of family farmers to the development and stability of the United States hardly needs recounting. Suffice it to say that throughout the country's history, the social values of farm life have been almost as important as the foodstuffs they produced.

Yet, the number of farms is dwindling at a rapid rate. In the past 40 years, the number has dropped from 6.8 million to about 2.3 million, which means that farms are becoming larger and farmers fewer. The average age of farm owners is about 55, which means that young people either see no future in agriculture or don't have the means to pursue it.

What is the result of this trend? In many cases, it means absentee farm owners, who do not participate in local affairs and who take their profits elsewhere.

Sometimes it means overworking the soil and using excessive amounts of fertilizer and pesticides to produce bigger yields and bigger profits. It means the decline of many rural communities and businesses that depend on family farmers for survival.

It means migration of people from rural areas and additional burdens thrown on urban centers. It means national farm policies increasingly oriented toward large farms and corporate operations, policies which aggravate the problems of small farmers and accelerate farmland consolidation.

The concentration of farmland in fewer hands proceeds apace despite government studies showing that the family farm is the most efficient unit in terms of production cost and return on investment.

Can anything be done to slow or reverse the trend? Sen. Gaylord Nelson and 12 other senators think they have at least a partial solution.

Recognizing that high costs of land and equipment have made entry into farming virtually impossible for persons without substantial assets—the cost of starting a family-sized farm from scratch is estimated at \$250,000 to \$500,000—they have introduced a bill entitled the “Farm Entry Assistance Act.”

Basically, the bill would provide loan guarantees for persons who want to become farmers but don't have the necessary capital or can't get loans on their own. To qualify, a person would have to be able to operate a farm, would have to be entering farming on a full-time basis for the first time within the past 10 years and could have a net worth of no more than \$75,000. A family farm would be defined as one that can be maintained and operated by a farmer and members of his or her family with no more than the equivalent of one full-time hired helper.

This would not be a grant program nor a program under which loans would be made from the federal treasury. It would be a repayment “guarantee” program for loans made from private sources. The sponsors claim the program would cost the federal government little since it would be expected that most loans would be repaid. In instances in which loans might be defaulted and the government had to pay them off, there would be farm assets on which the government could foreclose. Federal administrative costs, they say, would also be kept at a minimum because the program would be administered for the most part by the states.

The bill states that “the maintenance of a farm system dominated by family-sized units is and should be a basic goal of American agricultural policy.”

That's a worthy goal and Senator Nelson's bill seems worthy of consideration as a way to reach it. We hope the bill doesn't gather dust on some committee shelf.

[News release from the National Farmers Union]

FARMERS UNION FULLY SUPPORTS LEGISLATION WHICH WOULD ASSIST YOUNG PERSONS TO ENTER FARMING

Washington, D.C., April 3, 1979—National Farmers Union gave its full support today to legislation which would assist qualified individuals to enter farming or ranching when they do not have or cannot acquire the financial assets to do so.

Robert J. Mullins, Assistant NFU Director of Legislative Services, pointed out that his organization has supported such legislation each time it has been introduced in Congress. The present bill, S. 582, the Farm Entry Assistance Act, is sponsored by Senators Gaylord Nelson (D-Wis.) and George McGovern (D-SD).

“We all know the main burden for anyone wanting to get into agriculture on a first time and full time basis is the enormous capital outlay for land and equipment,” Mullins said. Not only would enactment of this legislation provide the mechanism for beginning farmers to get into agriculture, Mullins said, but it could also prove beneficial in addressing two other problems, the declining number of farms and the continuing loss of land from agricultural use.

A beginning farmer wanting to purchase an average size farm in his state must pay from \$115,000 in the Appalachian region to \$579,913 in the Mountain region for just the land, Mullins pointed out.

National Farmers Union shares the concern of USDA's Secretary Bob Bergland, religious leaders, educators and members of the Congress for the need to save the family farm, Mullins said.

“We believe that in creating the mechanism whereby we can perpetuate the ownership of America's farms and ranches in the hands of independent family operators, we will be making great progress in promoting and perpetuating our system of agriculture,” he declared.

S. 582 would provide loan guarantees of up to 90% for beginning farmers in programs which would be established and operated by each state.

STATEMENT OF DAVID E. WENTZLAFF, DIRECTOR OF LEGISLATIVE SERVICES,
SOUTH DAKOTA FARMERS UNION, HURON, S. DAK.

Good morning. My name is Dave Wentzlaff. I am the Director of Legislative Services for the South Dakota Farmers Union, an organization representing approximately 15,000 farm and ranch families in South Dakota.

We in the Farmers Union believe family type farms to be the keystone around which our highly successful agricultural system has developed. We believe also that the best interest and welfare of the nation lies in the preservation of a family-farm pattern of agriculture.

In our estimation, a "family farm" is an agricultural production unit which can be efficiently operated by a full-time farmer and his family, that provides most of its own labor, management and investment and derives its major income from the farm.

A crisis of great magnitude has developed that threatens extinction of this family farm system of agriculture and the nation's food supply as well. It is by keeping the land in the hands of family farmers that the food supply for the nation can be assured. Corporate or non-resident alien control of America's food production would, we feel, result in increasing loss of family farms and increasing food costs for the American consumer.

I am here today, on behalf of the South Dakota Farmers Union, to ask this committee for favorable action on the "Farm Entry Assistance Act". The obstacles young people in South Dakota (and probably all over the U.S.) are forced to deal with in trying to enter agriculture are staggering. We wish to commend our good senator from S.D., George McGovern, and Senator Gaylord Nelson for cosponsoring this piece of legislation which we have found to be a fair and reasonable approach to the many land tenure problems in existence today.

The agricultural industry in South Dakota is our state's largest industry by far. During the past four decades, the state has experienced a sharp decline in the number of farms which has led to a corresponding decrease in population of our rural communities. From 1930 to 1974, the number of farms and ranches in South Dakota declined from 83,200 to 43,500, according to the South Dakota Crop and Livestock Reporting Service. On the other hand, during the same period, the average size of S.D. farms and ranches increased from 439 to 1,046 acres, and the per acre value of land and building has increased from \$35.14 to \$129.00. These trends, I might add, are continuing in a rather dramatic fashion even up to today.

The decline in the number of farms has in part been caused by the escalating cost of land and the increasing amount of land needed to maintain a viable farm unit, the increasing cost of farm equipment and supplies coupled with sub-parity prices for almost all agricultural commodities, and high interest rates.

It has become apparent that small farmers, or young people attempting to enter farming, are unable to compete for available land with large landowners and nonresident aliens (who, up to now, could own farm or ranch land in S.D. in any quantity). Thus, larger operators get larger at the expense of small operators who are squeezed out, and of potential farmers who are unable to get started.

The amount of capital necessary to start a farming operation has increased considerably as the size of farms and ranches and the value of land have increased. It is now generally conceded that an economical farm unit requires an investment of no less than \$250,000.00 in land and equipment. The size of this figure has made it all but impossible for most young people to begin farming without some form of economic assistance.

Historically, conventional sources of agricultural credit have, for the most part, adequately served the needs of farmers and ranchers. Recent trends in land prices, however, have made it difficult, and in many cases impossible, for young and beginning farmers to obtain financing. In many areas land prices have increased to the point where it is not possible to generate the necessary cash flow to even come close to meeting mortgage payments.

Because of these inflationary spirals, the ownership of land has become more profitable than the production of food from that land. Land is becoming a commodity to be bought and sold as a hedge against inflation, and as a capital gains investment, rather than as a base for food production.

In the final report of the North Dakota Farmers Union Family Farm Commission, the following comments were put forth regarding farm credit:

"Credit programs geared to the needs of starting farmers must be instituted. These programs should include reduced interest rates, deferment of either interest or principal payments as may be beneficial and similar devices to reduce the initial burdens of capital investments and payments required of new farmers.

Credit programs, whether sponsored through national or state governments, or through private institutions, should contain provisions allowing deferment of payments for a limited period in the event of unusual circumstances.

Beginning small business and farm loans should have a subsidized interest rate for an initial 10 year period to make possible the continued movement of qualified persons into the free enterprise system of independent family businesses, whether farm or urban."

South Dakota Farmers Union was instrumental, in 1975, in getting the South Dakota Homestead Land Act introduced in the state legislature. This was a bill patterned after the Saskatchewan Land Bank program, a very successful land tenure program in the Province of Saskatchewan, Canada. I have personally made two visits to that Province and have visited first hand with government officials involved in the Land Bank as well as young farm people under the program who were highly exuberant about its operation. In fact, most of the young farmers indicated that this was the only way that they could have gotten started in farming. Unfortunately, this concept was turned down by our legislature, even though some important modifications had been made in the bill.

Our sister state, Minnesota, had better luck in getting a young farmer assistance bill passed. This is referred to as the Minnesota Family Farm Security Act, an appropriate title indeed. This law was created to assist farmers who otherwise would be unable to obtain credit to purchase farm real estate by guaranteeing loans and deferring interest payments. This program will provide a 90% guarantee on loans made through any lender or on a contract for deed and may provide a 4% interest adjustment payment on the outstanding principal balance of the loan.

I believe that the state of South Dakota should follow Minnesota's lead and enact similar legislation. I also feel that the proposed "Farm Entry Assistance Act" would make our state legislators a lot more willing to consider such a state program. The beautiful part about this bill is that it allows for a totally state controlled and administered program. This should make it easier for even the most conservative state legislator to swallow. It's like the old saying about being able to "have your cake and eat it too".

The "Farm Entry Assistance Act" would be a reasonable and workable approach to use to begin the arduous task of land tenure reform in South Dakota and the nation as a whole. We agree wholeheartedly with the statement in the bill which reads as follows: "The maintenance of a farm system dominated by family-sized units is and should be a basic goal of American agricultural policy."

In conclusion, I'd like to say that while I believe that we desperately need this particular bill passed, any program that facilitates the entry of new farmers into agriculture and the establishment of new farm units, without an adequate accompanying pricing system for production is doomed to failure. A production and price stabilization program is an absolute necessity if new or existing farm units are to have the economic opportunity to continue in operation.

Thank you very much for the opportunity to appear before you today.

FIG. 8.—NUMBER OF FARMS AND PERCENT OF FARMS BY ECONOMIC CLASS, SOUTH DAKOTA 1949, 1959, AND 1969

Value of agricultural products sold	1949		1959		1969	
	Number of farms	Percent of farms	Number of farms	Percent of farms	Number of farms	Percent of farms
Economic class:						
1. \$40, 000 and over.....	1, 530	2. 31	1, 131	2. 04	4, 601	10. 07
2. \$20, 000 to \$39, 999.....	9, 104	13. 73	3, 429	6. 18	10, 285	22. 49
3. \$10, 000 to \$19, 999.....	21, 130	31. 85	10, 484	18. 90	12, 931	28. 28
4. \$5, 000 to \$9, 999.....	18, 862	28. 44	17, 954	32. 35	8, 109	17. 73
5. \$2, 500 to \$4, 999.....	8, 901	13. 42	12, 443	22. 42	4, 544	9. 94
6. \$50 to \$2, 499.....	3, 199	4. 82	4, 240	7. 64	1, 536	3. 36
7. Part time.....	1, 807	2. 72	2, 972	5. 35	2, 407	5. 26
8. Part retirement.....	1, 699	2. 56	2, 786	5. 02	1, 257	2. 75
9. Abnormal.....	99	. 15	57	. 10	56	. 12
Total.....	66, 331	100. 00	55, 496	100. 00	49, 726	100. 00

Source: Census of Agriculture.

TABLE 4.—SOUTH DAKOTA TRENDS IN CONTROL OF FARMS AND FARMLAND, 1900-69

	Percent of all operators who are—				Percent of land operated by—			
	Full owners	Part owners	Hired managers	Full tenants	Full owners	Part owners	Hired managers	Full tenants
1900.....	49	28	1	22	38	41	3	18
1910.....	52	22	1	25	174	3	3	23
1920.....	36	28	1	35	26	44	2	28
1930.....	27	28	1	44	18	44	2	36
1935.....	26	25	1	48	16	44	3	37
1940.....	21	26	(²)	53	10	50	1	39
1945.....	25	36	1	38	12	62	3	23
1950.....	31	38	(²)	31	17	61	4	18
1954.....	32	39	(²)	29	17	63	2	18
1959.....	32	42	(²)	26	16	64	3	17
1964.....	34	44	1	22	19	61	7	13
1969.....	38	45	(³)	17	28	61	(³)	11

¹ Includes part owners.

² Less than ½ of 1 percent.

³ Not reported.

Source: U.S. Census of Agriculture: 1900-59 data as reported by Pengra S.D., AES, Econ. Pamphlet 56.

This article appears in the April, 1979 issue of Acres, U.S.A.

APPLETON, MINN.

Political leaders and their economists are now suggesting that studies be made and plans be revealed to help agriculture receive more credit, insurance and some even mention increased prices but we should all realize that price is what it is all about. Farmers and ranchers have heard politicians and their economists talk of this since the days of President Truman. At this time, we have a law that could provide for a fair return for labor, capital and management for the farmers and ranchers of this nation but it has been implemented at less than parity levels.

For almost thirty years, farmers and ranchers of the United States have supplied most of the food for the people of the U.S. at 70 percent of a fair and equitable price and additionally provided more than twenty (20) billion dollars for export in one year at bargain prices which were less than half the price the farmers in the common market countries of Europe and the farmers of Japan received. If the farmers and ranchers of the United States had received a fair return on their investment and comparable wages for their labor that industrial workers received for their labor in 1977, they would have received 87 billion dollars instead of the 20 billion dollars they actually received.

The following farm prices and the cost of farm equipment should interest you.

Item	1948	1968	1971	1973	1976	1978
Flax.....	6.96	3.05	2.42	8.00	7.15	5.50
Soybeans.....	4.16	2.55	2.42	5.28	7.15	5.99
Rye.....	2.63	.98	.78	2.50	2.35	1.70
Corn.....	2.63	1.00	1.00	2.08	2.35	1.83
Oats.....	1.29	.67	.83	1.03	.46	1.20
Wheat.....	2.05	1.39	1.37	4.30	2.99	3.03
Eggs.....	.41	.18	.18	.54	.54	.37
Milk.....	3.94	4.31	4.96	6.65	8.58	9.20
Tractor TD9.....	\$4,500	\$16,000	\$17,500	\$19,000	\$24,000	\$30,000
Tractor MD.....	2,600	6,000	7,500	8,500	11,000	13,000
5-bottom plow.....	650	1,200	1,800	2,850	4,100	4,500
Drill 14-ft.....	600	1,200	2,000	2,200	3,600	9,000
Truck, 2½-ton.....	2,250	5,000	6,500	8,000	11,000	16,500
Truck, 1½-ton.....	1,800	3,000	5,000	6,800	9,000	12,500
Combine.....	3,400	7,000	13,000	16,000	28,000	60,000
Jeep.....	1,400	3,500	4,200	4,500	6,500	8,000
Digger, 17 ft.....	400	900	1,500	2,100	3,100	4,400
Taxes.....	179	448	629	652	1,362	1,680

For the past 20 years, the Secretary of Agriculture has had the authority to support prices at 90% of parity on feed grains and 100% parity on wheat. This authority was renewed in the 1977 and 1978 Farm Acts. As Congressman from Minnesota Bob Bergland, now Secretary of Agriculture urged Secretary Butz to support prices at 90% of parity, Butz did not do so and it is to be noticed Secretary Bergland has neglected to do what he urged Secretary Butz to do.

Sincerely,

ELMER A. BENSON.

STATEMENT OF RON TAYLOR, NORTH CAROLINA STATE REPRESENTATIVE ON
BEHALF OF THE NATIONAL CONFERENCE OF STATE LEGISLATURES

Thank you Mr. Chairman. I am Representative Ron Taylor of North Carolina here today representing the National Conference of State Legislatures (NCSL),¹ as Chairman of NCSL's Rural Development Committee. We welcome the opportunity to appear before you today and present our views on the Family Farm Entry Assistance Act.

I. SUPPORT FOR FEDERAL-STATE PARTNERSHIP IN PROVIDING ADEQUATE FARM CREDIT

Since the organization of the Rural Development Committee more than two years ago, the NCSL has supported changes in the farm credit system to more adequately finance agricultural enterprises, including the family farm. Surveys of the members of the committee during 1978-79 place the issue of providing assistance to help beginning farmers obtain financing among the top five concerns for this legislative session.

At the same time, we have emphasized that decisions affecting American agriculture should reflect a working partnership of the Federal government with the States in both the formulation and implementation of policy. The Family Farm Entry Assistance Act, based on the pioneering efforts of the Farm Security Program in the state of Minnesota, is a classic example of such partnership in policymaking.

II. REASONS FOR CONCERN

The conditions which prompt the introduction of this legislation are well known—

The continuing decline in the number of farms and those in the farm labor force, particularly the disappearance of greater numbers of family-owned and family-operated farms.

The mushrooming costs to enter farming on a full-time basis, paralleled by the increasing incidence of both part-time farming and the necessity for off-farm employment by one or both spouses to maintain the family unit on the farm.

The concentration of farmland ownership in fewer hands, accompanied by the conversion of millions of acres of farmland each year into other uses.

The threat to the viability of rural communities as local business activity declines, participation in civic and social activities is reduced, and those formerly engaged in part-time, off-farm employment look elsewhere for full-time opportunities.

As the Montana Farmer-Stockman so aptly summarized in a recent article on the basic changes in farming over the past fifty years, "Old family farm has a new look," we have gone: From hand production to mass production; from family power to capital power; from manpower to brainpower; from generalization to specialization; and from independence to dependence.

III. STATE ACTIVITY

These changes and conditions impact on the states and regions of the nation with varying intensity and effects. S. 582 recognizes that fact, and is therefore of interest to states in every region, particularly those that are considering legislation to provide assistance to beginning farmers or will study the topic this year.

Activity is currently centered in these states:

Iowa, Massachusetts, Montana, Ohio and Pennsylvania are considering legislation modeled after Minnesota's Farm Security Act. The language of the Minnesota statute was the basis for the "Family Farm Credit Act," an entry in the Council of State Governments' 1978 edition of Suggested State legislation. The publication provides bill drafts of legislative topics of current interest and is distributed to governors, legislators, attorneys general, members of Commissions on Interstate Cooperation, and other state officials.

¹The National Conference of State Legislatures, the official representative of the country's 7,500 state legislators and their staffs, work to help lawmakers meet the challenges of the complex federal system. Headquartered in Denver, Colo., with an Office of State-Federal Relations in Washington, D.C., the NCSL is a non-partisan organization funded by the states and governed by a 43-member Executive Committee.

The NCSL has three basic objectives: To improve the quality and effectiveness of state legislatures; to assure states a strong, cohesive voice in the federal decision making process; and to foster interstate communication and cooperation.

North Dakota is studying legislation which provides income tax incentives to landowners who sell or lease land to beginning farmers.

An interim study committee on the topic is being considered in Colorado.

Wisconsin's legislators are at the second reading stage in considering an amendment to the State constitution regarding bonding for farm loans.

Hearings may be forthcoming in a few weeks in New York State on efforts to encourage commercial banks to increase their participation in agricultural lending.

IV. REACTION TO PROPOSAL

Legislators, legislative staff, and program directors in these states and others, including California, Georgia, Minnesota, North Carolina and Oregon are continuing to study the Family Farm Entry Assistance Act. Their initial reaction has been for the most part positive for these reasons:

First, because of the flexibility that the bill allows for states to establish the type of program that best fits the climate in their farming and lending communities.

Second, the bill affords the opportunity for participation in those states, such as Iowa, with constitutional limits on their ability to pledge their credit to an individual, association or corporation.

Third, these hearings and the attendant publicity they generate and the passage of this legislation will heighten the interest in other states to assist those wishing to enter farming.

Fourth, and in a somewhat humorous vein, as suggested by a legislative staff member, this Federal guarantee program could serve to ease the burden of those making what one Arkansas banker calls "guts and feathers" loans to young farmers, where "the primary ingredient for both lender and borrower is guts and if either party is wrong in their basic assumptions, it will take the hide and feathers off of everyone, particularly the lender.

Finally, the program to be established by the Act would serve to both supplement and augment existing programs which are to provide financial assistance to farmers, particularly the Farmers Home Administration efforts to provide ownership and operating loans to limited-resource farmers. A word about those efforts will follow shortly.

I believe it necessary, however, to first register the major concern about the Family Farm Assistance Act that has been voiced by some legislators, staff, and program directors, for Montana to Nebraska to Georgia. That being, in the form of a question: Are lenders and guarantors really doing young farmers a favor by granting them a debt loan they may not be able to carry? Or as stated rather sharply by a member of the Rural Development Committee, a State Senator from Nebraska:

"I could summarize all the financing programs suggested as band-aid approaches to cure a person dying of cancer. The cancer in agriculture is caused by the monopsonistic and oligopsonistic buying practices with sanctions of the federal government to keep low farm prices * * * with farmers being educated by our universities to produce more so they can sell it for less as a solution to their problems * * * Until these policies are changed nationally, I consider it a ridiculous hoax to set up lending programs for young farmers to tease them into a poverty existence * * *"

The vast majority of those who have discussed the Act with us view it as *part* of the solution to allaying the conditions cited earlier in my remarks. Assuring the availability of capital is but one of a number of objectives that NCSL believes should be incorporated within a national food policy to be enacted by Congress and the President.

V. FMHA LIMITED-RESOURCE LOANS

As noted previously, our discussions also dwelt on the FmHA loans to limited-resource farmers. Chief among the concerns expressed about the program were the need for additional outreach, the current mix of operating and ownership loans to limited-resource farmers (3:2 in favor of operating loans thus far in fiscal year 1979), the extensive backlog of applicants, and the limitations on those eligible for the program. Little hope was expressed for improving the administration of the program since the limited number of personnel in the agency's State, district, and county offices appear overburdened in managing the basic, established programs. The emphasis on operating loans and limitations on eligibility within the FmHA program should prompt the study of alternative funding programs, which lead to new ownership and renewal of family farms. The Family Farm Entry Assistance Act offers such a program.

STATEMENT OF MICHAEL BOEHLJE, PROFESSOR OF ECONOMICS, IOWA STATE UNIVERSITY, AMES, IOWA

ENTRY INTO AGRICULTURE: BARRIERS AND POLICY ALTERNATIVES¹

Many have expressed concern in recent years about the opportunities for and impediments to entry into agriculture. This issue is not only of concern to those who are attempting to enter farming, it has also become a policy concern at both state and national levels with particular emphasis on the implications of entry into agriculture for the structure and control of the farming sector and the future of the family farm. Our purpose here will be to briefly review entry problems in agriculture from a historical perspective, identify potential barriers to entry, and briefly review policy options that may lower these barriers.

A HISTORICAL PERSPECTIVE

Historically, a substantial number of new entrants have moved into agriculture by the "agricultural ladder."² Thus, a potential entrant began his career as a hired hand on the home or a neighbor's farm, and through diligent work and wise spending, he accumulated sufficient funds to purchase a set of machinery. Subsequently, the new entrant became a renter, then a part-owner of real estate, and finally the pinnacle of success was reached with full ownership of land as well as machinery. Although the process required family sacrifices, the resource requirements were sufficiently modest that this procedure could be used successfully by the diligent worker.

Research in the 1960's confirmed this strategy and the role of family assistance as means of entry into farming. Brake and Wirth analyzed the financial characteristics of beginning farmers in Michigan in the early 1960's.³ They found that most new entrants worked on the family farm to acquire the necessary initial capital, and that the beginning debt and asset positions and the debt to net worth ratio were all higher for entrants who started farming in the 1950's and 60's compared to farmers who began in the early part of the 20th Century.

Watzek found in an Indiana study that about 80% of the beginning farmers he interviewed received family assistance to get established in farming, and surprisingly, that part-time farmers made very little financial progress.⁴ Watzek further found that those who made the most rapid financial progress tended to have: (1) A good education before launching a career, (2) a high value on investment as opposed to consumption, (3) small families to support, (4) more intensive enterprises, particularly hogs, (5) larger operations to obtain economies of size, and (6) low equities and large debt which enabled them to control a large amount of assets.

In a more recent study, Thomas and Jensen concluded that whereas the opportunities in farming look bright for beginning farmers with excellent managerial ability, little opportunity exists for the individual with only average management skill.⁵ Epperson and Bell analyzed alternative institutional sources of credit to determine their policies regarding beginning farmers.⁶ They found that since most institutional lenders use collateral as a basis for making a loan, new entrants are effectively limited to family help or inheritance as a source of funds. Epperson and Bell also indicate that security of tenure is necessary to becoming established in farming. Thus, longer tenure leasing arrangements may be required for the potential entrant into agriculture.

The viability of the "agricultural ladder" as a source of new entrants into agriculture is now in question. With the substitution of capital for labor, the rapid price increase in durable resources (particularly land), and the expanding capital requirements of the economically viable farm firm, it is virtually impossible to acquire sufficient capital resources through this historically successful procedure.

¹ Michael Boehlje and Kenneth Thomas, Professors of Economics, Iowa State University and Extension Economist-Farm Management, University of Minnesota.

² Boehlje, Michael. "The Entry-Growth-Exit Processes in Agriculture," Southern Journal of Agricultural Economics, vol. 5, No. 1, July 1973, pp. 23-36.

³ Brake, J. R., and M. E. Wirth, "The Michigan Farm Credit Panel: A History of Capital Accumulation," Michigan State University Agri. Exp. Sta. Res. Report 25, East Lansing, 1964.

⁴ Watzek, John A., "Factors Related to Successor Failure on Getting Started in Farming," unpublished M.S. thesis, Purdue University, 1970.

⁵ Thomas, Kenneth H., and Harold E. Jensen, "Starting Farming in South Central Minnesota * * * Guidelines, Financial Rewards, Requirements," Agri. Exp. Sta., Bull. 499, Univ. of Minn., 1969.

⁶ Epperson, James E., and Sidney C. Bell, "Getting Established in Farming with Special Reference to Credit," Auburn Univ. Agri. Exp. Sta. Bull. 400, April 1970.

In addition, this procedure may not provide the entrepreneurial training that is so important for a successful new entrant in today's agriculture. Furthermore, it is not clear that entry into agriculture should be limited only to those whose families are farmers and have control of farm resources.

FARMING OPPORTUNITIES

The number of future farming opportunities or "positions available" has been documented by Julius for the state of Iowa.⁷ He indicates that entry opportunities are not as numerous in absolute numbers as they were 20 years ago, but they are higher as a percentage of the total farm employment opportunities and will remain so until 1985. The increase in relative farming opportunities is caused by the fact that in 1940, 40 percent of the rural farm males between the ages of 20 and 65 were men under 35 years of age. This preponderance of men that were young at that time has dominated the age structure of farm workers in Iowa to this day. Thus, since 1970 and continuing to 1985, the entry blocking effect that this age group had previously exerted by holding large numbers of farm jobs changed to the opposite effect of releasing large numbers of farm jobs through retirement. Similar results would be expected of analysis of entry opportunities in other states.

The competition for increased entry opportunities will be keen however. High birth rates during the 50's and early 60's will provide three to four times as many farm boys reaching the age of 20 as there are farming opportunities.⁸ Add to this the fact that many existing farm businesses are in a very strong position to expand or add resources as a result of appreciation in the value of land and machinery and the high earnings of the mid-1970's. Furthermore, farming has become a much more attractive occupation to farm and non-farm youth. Thus, the numbers of people competing for farming opportunities is very high, and those having a good home farm business to "piggy-back" on are in the strongest competitive position. Those starting with little or no family assistance must recognize that their opportunities are limited at best.

BARRIERS TO ENTRY

There are no legal obstacles to becoming a farmer; no examinations, no education requirement, no licenses. Anyone who wishes may try. Substantial barriers to an otherwise legally-free entry into farming do exist, however. These barriers include ever increasing amounts of land, machinery, livestock and other capital to obtain an efficient unit, increasing managerial skills, the limited risk-bearing ability of beginning farmers, and problems of resource (particularly land) control. We will discuss each of these barriers briefly in turn.

Capital requirements

Farming in the United States has undergone many marked changes in recent years and is still changing rapidly. As late as 1940, labor still accounted for over half of the resources used in farming. Today, labor accounts for less than 20 percent of farm resources, being replaced by sharp increases in the use of capital. This adjustment has fostered much larger farms and capital investments. In fact, farm records show that investments per farm have more than doubled each decade in recent times.⁹

Being short of capital, a prospective farmer faces an increasingly difficult task of gaining control of sufficient resources to make successful entry. This is particularly true of persons who must start with little family assistance. Of necessity, they must look for an opportunity that will make the most use of their labor when combined with their limited capital. Furthermore, because incomes and wage rates in off-farm employment are not rising as rapidly as the cost of farm inputs (particularly machinery and land), the strategy of working off the farm to obtain the necessary funds for entry is frequently not successful.

⁷ Julius, Marvin, "Entry and Expansion Opportunities and the Human Cycle in Agriculture," Unpublished paper presented at the Entry-Exit Conference, The Cooperative Extension Service, Iowa State University, Ames, 1976.

⁸ *Ibid.*, p. 3.

⁹ Stoneberg, E. G. and William Edwards, "Iowa Farm Costs and Returns—1977" FM-1754, Cooperative Extension Service, Iowa State University, June 1978.

TABLE 1.—LAND OTHER CAPITAL REQUIRED FOR FULL-EMPLOYMENT (2800), VARIOUS TYPES OF FARMS¹

	Land (acres)	Livestock	Machinery and equip- ment in- vestment	Livestock, feed, and operating capital	Income above variable costs	Efficiency level (major enterprise)
Dairy—Grade A—Wisconsin..	120	30 cows.....	\$30,000	\$38,000	\$26,000	13,000–14,000 lb per cow.
Farrow finish hog—Corn Belt..	200	100 litters.....	49,000	43,000	32,500	7.5 pigs/per litter.
Hog—Beef finishing, Corn Belt.	200	60 litters, 100 steer calves.	49,000	65,000	28,500	Do.
Cash grain—Corn Belt ²	450	90,000	20,000	24,000	100 bu corn; 32 bu soybeans.
Wheat—Sorghum—Beef backgrounding—Great Plains.	800	200 steer calves....	90,000	110,000	26,000	30 bu wheat; 55 bu sorghum.

¹ Estimates of resource requirements are based on enterprise budget data used for farm planning purposes; see for example, Stoneberg, E. G., James McGrann and William Edwards, "Suggested Farm Budgetary Costs and Return, 1978–79," FM-1186, January 1978, Cooperative Extension Service, Iowa State University, Ames.

² Requires only approximately 2,100 hours per year, but the seasonal labor requirements in the planting and harvesting periods make it difficult to handle more acreage without hired labor.

Table 1 summarizes estimates of the resource requirements for full employment (2,800 hours per year) for different types of farming situations. Certainly, each farming situation will imply different capital requirements depending upon the quality of the resources, the quality of management, the standard of living expected, etc., but these estimates provide some indication of the resources required for a typical situation. Note that with a dairy operation, 120 acres of land plus \$30,000 of machinery and equipment and \$28,000 of operating capital is needed to have a unit that will provide full-time employment. The income above variable costs for this dairy operation (assuming the land is crop-share rented) would be about \$26,000. This income would be available for debt servicing (principal and interest), fixed expenses such as taxes and insurance and family living. The farrow-finish hog operation would require about 200 acres of land (crop share rented), \$49,000 of machinery and equipment, \$43,000 of operating capital and generate \$32,500 of income above variable costs. Replacing some of the hogs with a cattle feeding enterprise results in a \$22,000 increase in operating capital requirements and a \$4,000 decrease in income. If the beginning farmer wants to specialize in grain production, he will need to control 450 acres of row crop land (crop-share rental), invest \$90,000 in machinery and equipment and have operating capital of \$20,000. His income above variable cost is projected to be about \$24,000. The resource requirements for a wheat-sorghum-beef backgrounding operation in the Great Plains total 800 acres of cropland, \$90,000 of machinery and equipment and \$110,000 of operating capital; income above variable costs would be about \$26,000.

Managerial requirements

As farms have become larger and more complex, the managerial requirements have risen sharply. Also changing are the qualifications a farmer should have to be successful. Successful use of modern farming methods requires a higher degree of technical knowledge and skill. As noted earlier, Thomas and Jensen indicate substantially higher chances of success for excellent managers as compared to those of "average" ability. Furthermore, in recent years, skills in financial management and marketing have had particularly high payoffs. It should be noted that some of these skills, particularly those in the area of marketing and finance, are not acquired through the historical "hired man-agricultural ladder" approach to entry. Acquiring such skills may involve significant commitments of time and funds in formal training as well as practical experience.

Risk-bearing ability

One of the dominant characteristics of beginning farmers is limited capability to withstand risk. The beginning farmer typically does not have the equity base nor the experience to cope financially and personally with wide fluctuations in income. Family demands require that he generate at least sufficient income to provide a reasonable standard of living from the farming operation. Yet, the agricultural sector is characterized by increasing risk. Thus, we have an individual who frequently does not have the mental and managerial capability to handle risk attempting to enter a high risk industry, usually with a large amount of debt and high leverage which multiplies the risk even further. This conflict between the risk-bearing ability of the young farmer and the risk inherent in agriculture may be one of the key barriers to successful entry.

Resource control

As noted from earlier research, an additional barrier for the beginning farmer is that of resource control, particularly control of the land. Since much of the land in the U.S. is either owned or rented by established farmers with relatively strong financial positions, it is increasingly difficult for a beginning farmer to bid competitively in the purchase or rental market to acquire control of the land base. Furthermore, the high risk associated with cash rental arrangements to acquire control of land resources further multiplies the beginning farmer's problems. In addition to the risk associated with cash rental payments, many rental arrangements are short-term (one year) in nature, and thus the beginning farmer runs a risk of losing control of the land base after one or two years. Furthermore, with this tenure uncertainty, expansion in livestock which will typically generate the highest return to the beginning farmer's limited capital and relatively large labor supply is difficult if not impossible.

POLICY ALTERNATIVES

Given the barriers to entry discussed earlier, a number of policy initiatives to reduce these barriers might be suggested. We will not propose a specific policy option, but instead note a number of alternatives that might be considered. One should recognize at the outset that any policy that reduces the barriers and encourages entry into agriculture is discriminating in favor of that industry compared to other industries such as banking, retailing, manufacturing, etc. Barriers to entry exist in other industries (in many cases the barriers are as large or larger than those in agriculture), and one must justify special treatment for agriculture based on the contribution of such a program to the public welfare in the form of preserving a way of life, maintaining competition in the agricultural sector, protecting the family farm or in some other fashion. Any policy developed should be interfaced with current state and federal programs. In fact, one of the major considerations should be to eliminate those dimensions of current government policy that give a comparative advantage to established farmers. Such policies at the federal level may include government income and price support programs which in many cases are capitalized into land values and tax policy.¹⁰

Resource control

Some have proposed to assist the beginning farmer to attain control of resources, particularly land, through a program of government acquisition of real property which is then leased to the qualified beginning farmer for a period of years with an option to buy at the end of the lease period.¹¹ Although such programs do enable the beginning farmer to attain control of necessary resources, a number of problems are encountered. First, the state or federal agency becomes an active bidder in the real estate market and either directly or indirectly will have an influence on the price of farmland. Furthermore, many individuals are not supportive of government agencies (federal, state or local) owning and/or controlling additional farm real estate. Also, the question of who qualifies as a participant in the program and how do you allocate farms between qualified participants is also a problem.

An alternative strategy that might have some potential in the area of resource control, particularly with respect to real estate, is to provide an incentive for retiring farmers to rent their land on a long-term lease to qualified beginning farmers rather than sell it to an established farmer or even to a government agency. The incentive might be in the form of a tax credit for rent received under such an arrangement, or even some type of special indexed government bond in which the landlord could invest rental income that would give him a retirement income over time that is adjusted for inflation. Such a program would not require as large a budget outlay to make acquisitions of land, thus possibly enabling the government agency to service more beginning farmers. Furthermore, it would

¹⁰ For a review of the implications of such policies as cost-of-production indexed price support programs on land values and financial structure, see Boehlje, Michael and Steven Griffin, "Financial Impacts of Government Price Support Programs," *Am. J. Ag. Econ.* May 1979 (forthcoming). With respect to income and estate tax policy and its implications for resource control and land values, see Boehlje, Michael D. and Neil F. Harl, "Use Valuation Under the 1976 Tax Reform Act: Problems and Implications," Staff Paper No. 72, Department of Economics, Iowa State University, Aug. 1978 (to be published in a forthcoming issue of *Jurimetrics Journal*) and Boehlje, Michael, "Capital Gains, Cash Flows and Credit in the Agricultural Sector" in *Food and Agricultural Policy Issues*, Special Report 71, Agricultural Extension Service, University of Minnesota, 1978, pp. 231-41.

¹¹ Young Farmer's Homestead Act of 1975, S. 2589, *Congressional Record*, vol. 121, No. 159, Thursday, Oct. 30, 1975, 218929.

not involve the government being an active bidder in the farm land market and thus bidding up real estate prices. The program could be structured to encourage the landlord to provide a long-term rental arrangement rather than the traditional one year lease. Such an arrangement might also include a first option to buy for the tenant after a designated period of time at a market or other designated price.

A similar incentive might be provided to encourage retiring farmers to sell their land on favorable terms to qualified beginning farmers. The objectives of such a program would be to enable the qualified buyer to obtain the land at a price that is less than fair market value (to reduce his capital outlay and financial risk) and yet to enable the seller to receive the same after-tax proceeds as would have been obtained if the land was sold at fair market value to an established farmer. A special tax exemption of part or all of the capital gains if a retiring farmer sells to a qualified new entrant might be possible. To illustrate, assume a farmer has land with a fair market value of \$2,000 per acre and a tax basis of \$200 per acre. If he were to sell the land at its fair market value, \$1,800 of capital gain would result of which \$720 (40 percent) would be taxed. If the farmer was in the 28 percent tax bracket, the tax due per acre would be \$201.60 leaving after-tax proceeds of approximately \$1,800 per acre. If a program was available that exempted all gain from tax if the retiring farmer sold his land to a qualified new entrant, he could sell the land at \$1,800 per acre (10 percent less than fair market value) and receive the same proceeds as would have been received from a taxable sale. Furthermore, the buyer receives a lower price and has less financial risk, the program if properly structured would not result in land prices being bid up through subsidies provided to the buyers, and the seller has not received a subsidy even though the proceeds are not taxed since he must pass the tax benefits back to the buyer in the form of a lower price.

Management expertise

Almost every study of entry into agriculture indicates that above average management is necessary to have a reasonable probability of success in farming. This management expertise can be obtained through a combination of informal training and work experience along with formal education. Two possible options exist to enable aspiring farmers to obtain better training and education. One is to provide subsidies for those who want to participate in formal educational programs much like the Veterans Administration Programs that currently exist. Student loan programs specifically for those who want to obtain further formal training useful in a farming career might be developed. Alternatively, programs to defray part of the expenses of attending short courses or night school might be considered. Note that the purpose of any program in this area would be to increase the skill level of individuals who want to enter farming, not to necessarily increase the supply of new entrants.

An alternative program that might be used to encourage on-the-job training would be to provide incentives to employers to hire qualified entrants through some type of tax credit. Such a program would not be that dissimilar from current programs at the Federal level that provide tax credits for employing additional workers; however, such a credit in this case would be available only to farmers who employ "qualified" farmer trainees.

Subsidized credit programs

A common recommendation to assist beginning farmers is to provide subsidized credit. In fact, the Farmers Home Administration is a classic example of such a program. Recent changes in FmHA programs will increase the availability of funds to farmers who do not qualify for loans from conventional sources.¹² Many such arrangements include subsidized interest rates along with repayment schedules that include deferred principal payments. Preliminary analyses of deferred principal payment programs for beginning farmers in a recent study at Iowa State University suggest that such programs may not be as important as other strategies such as enterprise diversification and off-farm⁶ employment in improving the beginning farmers chances of success or his financial progress in terms of income or net worth generation.¹³

¹² Agricultural Credit Act of 1978, Public Law 95-334, 92 Stat. 420, Aug. 4, 1978.

¹³ Kaiser, Eddie and Michael Boehlje, "A Multiperiod MOTAD Programming Model to Evaluate Farm Planning Decisions Under Uncertainty," Staff Paper No. 88, Department of Economics, Iowa State University, Ames; Kaiser, Eddie, "An Economic Evaluation of Financial Strategies Used by Beginning Farmers To Enter Agriculture," Ph. D. thesis in progress, Iowa State University, Ames, Iowa.

If credit programs are judged to be an important part of the incentive mechanism to encourage entry into agriculture, one might consider the use of government guarantees rather than direct subsidies through lower interest rates for beginning farmers. The key attribute of the guarantee of the private sector loan by a federal or state agency is that one is relying on the expertise of the private sector to make decisions about the chances of success of a particular individual, and a smaller government bureaucracy is required. For example, Minnesota's Farm Security program for beginning farmers includes: (1) A 90 percent guarantee for the period of the loan, and (2) a deferred 4 percent interest payment adjustment providing the loan is for less than 20 years. This deferred interest is payable without an interest charge at the term of the contract or loan.¹⁴

A program to encourage seller financing of beginning farmers with an installment contract arrangement might be developed with tax incentives. For example, recent amendments to the Minnesota Farm Security Act exempt from state income taxation all interest received on an installment sale of land to qualified beginning farmers participating in the program.¹⁵ Such a program might encourage retiring farmers to sell their real estate at a lower price or on longer contract terms than would be offered to an established farm operator.

Employment in rural communities

One of the major factors that appears to enhance financial progress and probabilities of successful entry in the Iowa State University study noted earlier is the opportunity for off-farm employment by the farmer or his (her) spouse. Off-farm employment reduces the dependence of the farm family on income from the high risk farming enterprises, and enables the family to re-invest earnings from the farm in the operation rather than using them for family living and consumption. In essence, off-farm employment is a means of diversification, thus reducing risk, as well as a source of income for family living. Opportunities to combine off-farm and on-farm employment on the part of both husband and wife are common methods of entry today. Thus, in areas or communities where off-farm employment opportunities do not exist, a policy to encourage industrial development and create jobs may have a significant indirect benefit to beginning farmers as well as the direct benefit to the community through increased income and economic activity.

Risk

As noted earlier one of the key problems faced by beginning farmers is the risk encountered because of uncertain production and prices and high financial leverage. In many cases, it would appear that new entrants could acquire control of the resources (particularly land) through conventional renting or leasing activities if they could handle the financial risk associated with modern day agriculture. Although empirical studies are not available, it would appear that one of the more significant policy options to assist beginning farmers would be to develop a low cost insurance program to reduce production, price and income risk. A program might be written with the lender or landlord as a co-beneficiary of insurance proceeds so that in the case of low crop yields and or prices due to conditions beyond the control of the beginning farmer, insurance proceeds would be shared between both parties. Such a program would reduce the risk to the lender or landlord, thus increasing his willingness to advance funds or lease the land to the beginning farmer, as well as the risk of the farmer in terms of a reasonable standard of living for his family. Various insurance programs are available through commercial firms, but in many cases the coverage is rather costly and limited with respect to risks covered. The alternative being proposed here would be a subsidized all-risk insurance program (in essence, and income protection program) which would reduce the risk of both the beginning farmer and those who provide resources to him. Note that again one of the objectives of such a program is to provide an incentive for the private sector to help beginning farmers. In this case the incentive is provided by reducing the risk encountered by lenders or landlords who provide resources (at fair market rates) to new entrants. Combining such an insurance program with a loan or rent guarantee program as discussed earlier would appear to have substantial potential.

¹⁴ The Family Farm Security Act, Minnesota Statutes, Sec. 41.51-41.61L passed in 1967.

¹⁵ *Ibid.*, as amended in 1978 by the Minnesota legislature.

CONCLUSION

The barriers to entry into agriculture are substantial, but probably no greater than barriers to entry in many other segments of our economy. Any policy developed to encourage entry must be purposely discriminatory—discriminatory in favor of agriculture compared to other industries as well as between those who qualify and those who do not. If a policy to assist beginning farmers is developed, it should probably include provisions to assist in obtaining control of resources, reducing risk and improving management skills and employment opportunities in rural areas. A program that lowers only one of the barriers to entry may not be effective in encouraging new entrants into agriculture.

U.S. CATHOLIC CONFERENCE,
DEPARTMENT OF SOCIAL DEVELOPMENT AND WORLD PEACE,
Washington, D.C., April 17, 1979.

Senator HERMAN E. TALMADGE,
Chairman, Senate Agriculture Committee,
Russell Senate Office Building, Washington, D.C.

DEAR SENATOR TALMADGE: On April 3, the Senate Select Committee on Small Business and the Senate Agriculture Committee held joint hearings on S. 582, the Farm Entry Assistance Act. I understand that the record remains open for the submission of opinion on this measure. The United States Catholic Conference has an interest in the question of aid to new farmers, and I would like to bring our point of view to your attention at this time.

In February, USCC's Committee on Social Development and World Peace issued a policy statement on the family farm system in the United States. In this document, the Committee notes that "The forces that encourage farm consolidation combine with other economic trends to deny access to families seeking to enter agriculture. The growth policies of large operators, the activities of foreign and domestic speculators and corporate investors, the pressure to develop farmland for residential or other uses, and general affluence and inflation all work to push up the price of land. As a result, would-be farmers need prohibitive amounts of capital * * *."

Having recognized this problem, the Committee calls on government to "Encourage the entrance of new families into farming * * * through grants and low interest loans, technical assistance and training, and preferential treatment in the sale or lease of government-controlled land * * *."

The Farm Entry Assistance Act would authorize the Secretary of Agriculture to guarantee 90 percent of the payments on a loan, a contract for deed installment sale or a lease involving farmland or farm operating expenses. The guarantees would be extended only to participants in approved state-run programs who are new to agriculture and who intend to operate a family-sized farm.

We believe that this bill would provide an effective tool for enabling many aspiring farmers with limited assets to make a start in agriculture. It would also tend to counteract the present tendencies towards consolidation in the agricultural sector and towards absentee ownership of agricultural land. Both these tendencies are singled out in our policy statement as threats to the preservation of the family farm system.

The U.S. Catholic Conference is happy, then to lend its support to the Farm Entry Assistance Act. We will be watching the progress of the measure through Congress with interest in the months ahead.

There is one area in which we feel the bill could be improved. Our policy statement holds that "Any program aimed at maintaining or increasing the number of family farmers must be carefully designed and administered to preclude discrimination against women and members of minority groups." I suggest that language specifically prohibiting discrimination in any farm be added to the Act through amendment.

Thank you for your consideration.

Sincerely,

FRANCIS J. BUTLER,
Associate Secretary.

PULASKI COUNTY BOARD OF SUPERVISORS,
Pulaski, Va., April 12, 1979.

Mr. RAY WHITE,
Russell Building,
Washington, D.C.

DEAR RAY: In response to your request on April 9, 1979, for additional information concerning the Secretary's Working Conference, it is respectfully recommended that the language be written into Senate Bill 670 which would in fact state that the various secretaries of the President's Cabinet be required to meet and provide working solutions for rural problems.

Presently, the White House is advised through Jack Watson's Office that Alex Mercure, Under Secretary for Rural Development of the Department of Agriculture, works with other under secretaries within the Department of Agriculture. However, this needs to be broadened to the Cabinet level and cause the Cabinet Officers to address the rural problems on their level instead of relegating it to a position of insignificance. By providing such prestige and legitimacy to the process, there is no doubt in my mind that rural problems will be addressed and receive the attention that they so desperately need.

Once again, it was indeed a privilege and an honor to have seen you again at the hearing held by Senator Patrick Leahy of Vermont on Senate Bill 670. It is hoped that if you have the opportunity to come to Pulaski County that you will stop by and see me. However, in the meantime, I commend you for your efforts of advocacy for rural America and know that you will be successful in all of your future endeavors for the benefit of rural America.

If I can be of any assistance, please do not hesitate to call upon me.

Sincerely,

ROBERT McNICHOLS,
County Administrator.

AMERICAN BANKERS ASSOCIATION,
Washington, D.C., April 17, 1979.

HON. EDWARD ZORINSKY,
Chairman of the Subcommittee on Agricultural Credit and Rural Electrification,
Committee on Agriculture, Nutrition, and Forestry, U.S. Senate, Washington,
D.C.

DEAR Mr. CHAIRMAN: We submit this letter for the record of the recent hearings held by your subcommittee on S. 532 "Farm Entry Assistance Act."

The matter of young people and others being able to enter the business of farming on an economically sound basis should always be given a high priority by Congress. We must never allow barriers to develop which prevent qualified people from entering farming, an essential part of our nation's economy. The American Bankers Association compliments you and others in Congress who are exercising an important public interest responsibility by examining the need for a new entry assistance program, based on the premise that there is a credit barrier for qualified entrants into farming.

We believe there is substantial evidence which indicates that credit is not a major barrier to young families and others willing and able to farm. Therefore, we do not support the formation of another new special credit program for young farmers—principally for the following reasons:

There is a real danger that, through further government intervention, over-extension of the credit situation for young farmers will occur.

Existing credit programs are adequate to meet the needs of qualified entrants to farm production.

Young families should be motivated and encouraged to enter farming through profit incentives, rather than liberal credit offerings.

OVEREXTENSION OF FARM CREDIT

There is a growing concern that there may be too much credit availability for farming. During the 1970's farm assets increased from \$315 billion to over \$775 billion, primarily because of rapid inflation of farm land prices. Total debt incurred by farmers followed this more than two-fold rise from \$53 billion to \$135 billion, resulting in a relatively comfortable 17 percent debt/asset ratio. However, during the same time, (particularly since 1973) the relationship of income to farm debt has weakened substantially. Emil Melichar, Agricultural Economist of the Federal Reserve Board, puts this concern into perspective with these comments:

"It is disturbing to find that the recent increases in debt are far outside previous bounds of their relationship to farm-cash flow and net income. The recent ratio of debt financing to income has no precedent in this country. Whether the farm sector will be able to work out of this current unprecedented debt to income situation will of course depend upon future income prospects."

The facts indicate that the average loan maturity of the nation's farm debt has been lengthened from approximately three years in 1973 to nearly six years today. The lengthening of the farm debt maturity alone is not alarming; however, the persistent trend towards less liquidity in farming operations is a national financial problem that should be addressed. During the period from 1974 to 1978 the Farmers Home Administration (FmHA) increased the volume of its non-real estate loans by 515 percent; and the Commodity Credit Corporation, through price supports and storage loans, increased outlays by 633 percent. During this same period all non-real estate farm loans increased by only 80 percent.

ADEQUACY OF PRESENT PROGRAMS

We support the concept of government guaranteed loans for farmers; however, we believe this type of lending is already available through FmHA regular guaranteed credit arrangements and the special limited resource plan for farmers authorized by the Agricultural Credit Act of 1978. Obviously, a new program requires time to organize and implement. After an appropriate period of time, Congress may wish to review its accomplishments, and determine the necessity of program modifications or additional funding.

ENTRY INTO FAMILY FARMING

Family farm-type agriculture has been excellent for this country, and should be preserved. To do so, young people should be able to move into agricultural production with a reasonable opportunity of success. We must continually find ways to maintain a competitive individual entrepreneurship environment as the best method to maximize our country's agricultural production efficiency. This means opportunities in farming and ranching must be at least equal to other business opportunities facing young people as they choose a life's work. Although census data shows the average age of farmers to be relatively level over the past fifteen years, there is strong evidence of a good flow of young people into economically viable size units. A survey conducted by fourteen midwestern colleges of agriculture show that in 1974, 24 percent of their graduates returned to the business of production agriculture as compared with 10 percent five years earlier.

Today, there are several ways by which young people are able to start farming and ranching. Some begin by part-time cropping or livestock operations, while continuing to earn their family living needs by off-farm jobs. Others begin by "partnering" with relatives, and gradually acquire enough equity to go on their own. Still others negotiate "startup" loans from conventional lenders, relying on the guarantee of a parent or other responsible individual to promote appropriate lender's security. Young people may use combinations of banks, insurance companies, FmHA, Federal Land Bank, and private individual sources.

CONCLUSION

The principal point we wish to make is that existing lenders, both in the private and public sector have a broad array of credit programs available to help young farmers get started. We believe it is in the long-run interest of this country to encourage further innovation on the part of existing agricultural lenders rather than to extend the government's role beyond programs now available. We feel that Congress very wisely modified FmHA farm loan programs in recent years so that it can play a more effective role in supplementing the credit activities of private lenders in helping young people.

Our Association appreciates this opportunity to present our views, and welcomes other opportunities to be of assistance to this subcommittee.

A copy of this letter has been forwarded to Senator Gaylord Nelson, sponsor of S. 582, and other members of the Committee on Agriculture, Nutrition, and Forestry.

Sincerely,

GERALD M. LOWRIE.











