Testimony of Chuck Hassebrook

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to the

Senate Finance Committee

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Thank you for the opportunity to testify. I will speak in support of the New Homestead Act and share some thoughts on agricultural provisions of the Heartland Investment and Rural Employment (HIRE) Act.

We strongly support the New Homestead Act. It is particularly critical in the farm and ranch communities of our region. Our 2003 report, *Swept Away* analyzed the 182 counties in Iowa, Kansas, Minnesota, Nebraska and the Dakotas that directly rely on farming and ranching for at least twenty percent of income.

More than 80 percent of these counties are losing population. As a group, they suffer poverty at significantly higher rates than the region's metropolitan counties. Average earnings are a little over half of earnings in the region's metropolitan counties.

The New Homestead Act offers bold action to reverse decline in these counties. Most important, it makes a statement that the communities of rural America matter. Strong communities bring out the best in us. They restrain our most selfish impulses and elevate our instinct to help others; essential to building a strong society. It's time for public policy to recognize that. The New Homestead Act does so.

Its college loan forgiveness provisions would enable young people who want to return home to make that choice, rather than being forced to move to higher paying areas to service college loans. The tax credit for home purchases could make the difference in enabling many modest income families to buy homes and put down roots in rural America, where they want to be, rather than being forced by economics to pursue their dreams elsewhere.

We are especially supportive of two provisions aimed at stimulating small business development and creating opportunities for modest income rural people to build assets:

1. The Rural Small Business Investment Credit provides a 30 percent credit up to $5,000 annually and $25,000 lifetime to establish or expand owner-operated small businesses with five or fewer employees. The credit would be for all business investments (working capital, inventory, wages, etc.).
2. Individual Homestead Accounts provide tax incentives and matching funds for saving money to start a business, buy a home, get education or pay for health care.

We strongly laud your leadership Senator Grassley in including the Rural Small Business Investment Credit in HIRE and the JOBS tax bill passed by the Senate. We encourage you to work in the JOBS Conference Committee to secure its adoption. However, we ask you to make one refinement.

The Senate JOBS provision would provide Rural Investment Tax Credits of $165,000 per eligible county. But no more than 10 percent of that amount - $16,500 per county – could be allocated to the Rural Small Business Investment Credit. The other 90 percent would be dedicated to credits for constructing or rehabilitating buildings.

We urge you to remove the 10 percent cap on small business credits and allow states and communities the flexibility to determine how to best use their credits and decide which development path makes most sense for them.

Our research suggests that the most effective and desirable economic development strategy for most agricultural communities is small entrepreneurship – development based on locally owned, owner operated small businesses. Often called micro-enterprise development, it has been proven to work in the agricultural areas that have not been successful in attracting large employers from outside.

In the farm and ranch counties of Nebraska, Iowa, Kansas, Minnesota and the Dakotas; roughly half of the *net* job growth stems from non-farm <u>self</u>-employment - people creating their own job by starting a business. In the most rural counties, those with no community over 2,500 people, non farm self employment accounts for nearly 60 percent of total job growth and 80 percent of net job growth.

Rural people have an entrepreneurial bent. Agricultural counties in the nation's mid-section have several times the rate of self-employment as metropolitan counties. Small entrepreneurship is especially important as companies that formerly looked to rural areas are now moving off shore for lower wages.

There are social advantages to small entrepreneurship. It keeps profits in the community. It creates a mix of opportunities - some low wage jobs but also significant opportunities for people to build assets and earn middle class incomes as business owners. When real wages are falling in many industries, creating opportunities for people who work to be business owners creates more quality opportunities. Finally, small business development puts the future of the community in the hands of its own members, people committed to its future. That builds leadership and reduces dependency on outside forces.

The Senate was wise to include the Rural Investment Tax Credit in its bill, but it could be improved by removing the ten percent cap on its use for small business development. We must allow our investment to go where the return is greatest – in small business development. It has been proven to work in rural America.

I would also like to comment on the Heartland Investment and Rural Employment (HIRE) Act. We support its call for an examination of the impact of securities law on new cooperative formation.

The Center for Rural Affairs is working with a group of farmers and ranchers from Iowa, Nebraska and South to form a cooperative to market naturally raised hogs and cattle. The greatest expense we have faced is the legal cost of meeting the securities requirements of three different states. We urge that means be examined for streamlining the securities requirements for small cooperatives operating across state lines.

Such cooperatives are essential in enabling family farms and ranches to tap the opportunities in today's markets. Markets are segmenting into groups of consumers willing to pay substantial premiums for food products with unique attributes.

For family farmers to thrive in the 21^{st} century, they must band together to market effectively to those niches. Though the opportunities can be great, they do not necessarily start big. They often involve small numbers of producers in their initial phases who cannot afford exorbitant filing fees. Streamlining the filing process and reducing its cost would help stimulate rural entrepreneurship through cooperatives.

HIRE also proposes removing First Time Farmer Bonds from the state-by-state volume caps on private activity bonds. We support that provision. First time farmer bonds provide beginning farmers with affordable access to land and capital by providing a tax exemption on the interest earned by investors on bonds used to raise loan funds.

We suggest one additional provision with respect to first time farmer bonds. Current law prohibits federal guarantees of loans made with the proceeds of tax exempt bonds, with some exceptions. We urge that a provision be added to HIRE to also exempt first time farmer bonds from the federal loan guarantee prohibition. That would enable the USDA Farm Service Agency to guarantee loans made to beginning farmers with the proceeds of first time farmer bonds.

USDA has had difficulty in reaching its statutory targets of providing 25 percent of loan guarantees to beginning farmers. Removing the prohibition on guaranteeing first time farmer bonds would help USDA achieve the objectives set by federal law. And it would enhance the effectiveness of first time farmer bonds in opening opportunity to a new generation of farmers and ranchers.

In closing, I offer one additional thought – a caution regarding the extension of favorable tax treatment to production agriculture. Agriculture was a significantly tax favored industry prior to the Tax Reform Act of 1986. The experience was not good. Tax shelter induced over investment led to tax shelter induced over production – which lowered commodity prices.

Even more serious, tax shelters changed the rules of competition in agriculture. To compete effectively in a tax shelter industry, one must be able to competitively exploit the tax shelter. The advantage shifted to large farms and investors with the high bracket incomes and large amounts of capital needed to fully exploit tax shelters. Medium size owner operated farms and ranches were placed at a competitive disadvantage.

Farmers and ranchers recognized the problem in the 1980s and asked Congress to help. Senator Grassley played the lead role in correcting the problem.

It is a lesson worth remembering. We must exercise caution so as to avoid repeating the mistake. For example, tax incentives in the New Homestead Act for buildings and venture capital should either exclude production agriculture or be targeted to small and medium size owner operated farms.

Likewise, the tax exemption in HIRE for livestock production cooperatives should be carefully scrutinized to ensure that it does not subsidize large industrial livestock operations to drive family livestock farms out of business.

Thank you for the opportunity to testify.