

**Statement of Richard A. Brown
President and COO of Krause Corporation**

Before the

**House Committee on Small Business' Hearing on
"Creating Opportunities for Small Businesses in an Economic
Recovery"**

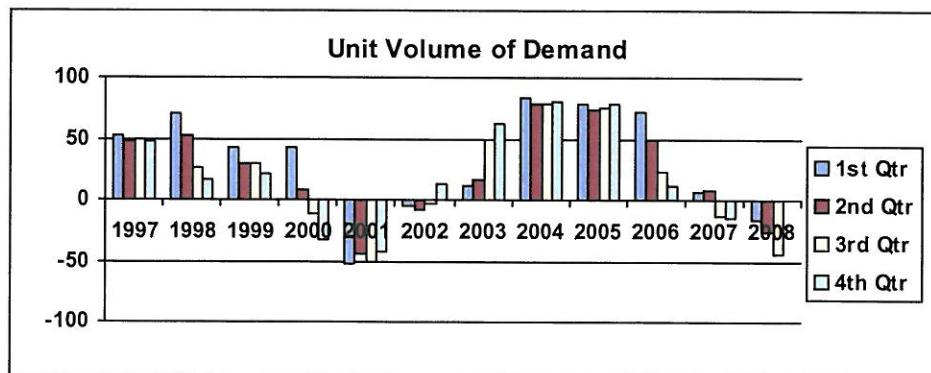
**October 28, 2008
10:00 A.M.
2360 Rayburn**

Thank you, Chairwoman Velazquez and Ranking Member Chabot, for the opportunity to testify on this important topic.

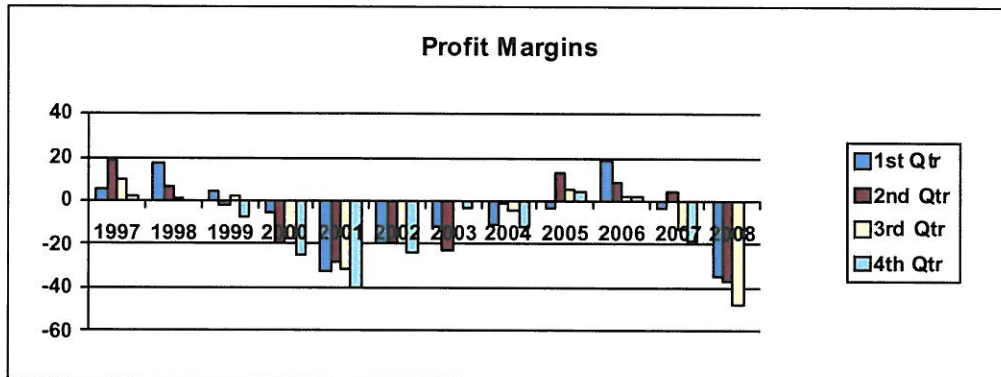
I am Richard Brown, President and Chief Operating Officer of Krause Corporation of Hutchinson, Kansas. Krause was founded in 1916 and is a privately held manufacturer and marketer of agricultural tillage products, which are sold primarily in North America, but also around the globe in Russia, Ukraine and Australia. We are a profitable company that employs approximately 225 people, supporting 500-700 dependents that rely on our ability to compete both in North America and around the world. Krause has survived the Great Depression, the Dust Bowl, two world wars, multiple other wars, material shortages and numerous financial interruptions. We intend to be here in the future.

I am also a member of the Board of Directors of the Association of Equipment Manufacturers (AEM). AEM is one of the oldest trade associations in America, representing over 800 companies that manufacturer agricultural, construction, forestry, mining and utility equipment. In addition, to serving on the AEM Board, I am Chairman of AEM's Small Enterprise Committee. The Small Enterprise Committee was established in 2007 to represent the interests of and provide specific services for AEM member companies reporting less than \$250 million in annual revenue. With 769 companies falling into this category, SEC member companies comprise 95% of AEM membership and represent more than \$12 billion in reported annual revenue. Of those 769 companies, 95 percent do business in the construction industry, 40 percent in the agriculture industry, 28 percent in utilities, 27 percent in the mining industry and 18 percent in the forestry industry (overlap in industries). SEC companies are based in 44 U.S. states.

While Wall Street is on a financial roller coaster, I am here to tell you that many small businesses in America are in an economic freefall. AEM members, like the rest of the country, are experiencing challenges due to the credit and liquidity crisis. AEM's Third Quarter Industry Conditions Survey of the construction equipment sector shows we have entered a period of contraction. In terms of unit volume of demand, 60 percent of AEM members reported demand is down from the same quarter last year and 56 percent reported it is down from the second quarter of this year. Furthermore, 31 percent reported their capital spending had decreased in the past three months while 56 percent reported a decline in their profit margins. Given these numbers, it is little wonder why a majority of AEM construction equipment manufacturers are planning for a recession business environment.



I have heard from several colleagues on how they are experiencing problems with obtaining lines of credit. One of them, a small manufacturer in rural South Carolina, had an operating line of credit with Wachovia that was secured by a stock portfolio, but with the unraveling of the market their line was frozen. Attempts to restructure their line with Wachovia stopped before they started and inquiries into other banks were met with a “we are only engaging in lending with existing bank customers” type responses. Now my colleague is spending most of his time trying to resolve the issue when he should be working to secure orders in this down market. Still other colleagues of mine have capital to operate but find their orders disappearing, in part because their consumers cannot get credit to make the purchase.



This crisis is also taking a toll on agriculture and rural America. The economic foundation for countless small businesses on thousands of Main Streets throughout the country is agriculture. Income gained from the production of commodities is the primary source of new monies for numerous rural communities, without which non-farm related businesses would lose their consumer base.

Modern agriculture requires farmers to have access to credit to obtain operating loans so they can make the large capital investments needed to plant and harvest crops. The tightening of the credit markets is coinciding with a rapid rise in the cost of agricultural inputs, such as fertilizer, seed, chemicals and fuel. The U.S. Department of Agriculture (USDA) estimates a 36 percent increase in crop-related expenses in 2008. USDA also estimates that since 2002, for the 14 major crops grown in the U.S., fertilizer expenses have increased 175 percent, seed expenses have increased 72 percent and pesticide expenses have increased 29 percent. It is important to note that the record commodity prices which earlier this year garnered intense media attention have fallen sharply in the past few months. For example, since June, corn prices have fallen around 49 percent, since July, soybeans have fallen 45 percent and since March, wheat has fallen 56 percent.

We are now seeing farmers delay the purchase of these inputs from their "normal" pre-season purchasing patterns as they are having trouble accessing credit and are hesitant to pay such steep prices. The ripple effects of tightening credit markets at a time of increasing capital requirements for agriculture will lead to economic hardships for rural America. I can also say that I personally perceive a sense of anger among rural Americans about this situation.

Generally speaking, they did not buy homes they could not afford or run up huge credit card debt, but now are forced to deal with the consequences of other people's excesses and as a consequence are losing faith in the system.

During these difficult times small businesses are the ones most at risk of failing, but there are steps the government can and should take to help ensure the continued success of America's entrepreneurs. These are my recommendations:

- 1) Extend the Bonus Depreciation and Enhanced Expensing Provision. This provision was an important part of the Stimulus Act of 2008 and its extension will continue to help multiple sectors of the economy including farmers, contractors, loggers and many more. Not only does this provision enable companies to purchase the tools they need to operate, but by buying new equipment with its modern technology, they become more competitive through efficiency gains.

Congress should also consider reinstating the 10 percent Investment Tax Credit for new equipment purchases as a long-term way to encourage the use of modern, more efficient, production methods.

- 2) Invest in Infrastructure. This will increase equipment demand, create good jobs and improve our nation's competitiveness by making badly needed repairs and upgrades to our aging infrastructure. America is the world's largest importer and exporter and we depend on the efficient transportation of goods and services. However, our nation's investment in our transportation infrastructure is totally inadequate to maintain our current system, let alone prepare us to compete in the 21st century. Today, across all sources we invest only \$85 billion annually in our transportation infrastructure. However, estimates show in order to properly maintain the current system and expand it to meet future needs we need to invest \$225-\$340 billion annually. While this is a significant sum, it pales in comparison to the cost of not making that investment.

While making the proper investment in transportation, we cannot afford to ignore our country's water infrastructure, which in many areas is over 100 years old. Simply put, economic activity of any kind cannot occur if a population does not have an adequate source of clean water. The most recent surveys conducted by the Environmental Protection Agency on drinking water and wastewater needs estimates that from 2003-2023 we will need to invest a minimum of \$276.8 billion on safe drinking water and \$202.5 billion on wastewater infrastructure. Currently, there is a \$23 billion annual funding shortfall. Investing in all types of infrastructure is one of the most productive short and long-term investments the government can make.

- 3) Help Small Businesses Export. Increased market access benefits small and medium-sized American businesses. Free Trade Agreements (FTAs) are needed to help level the playing field by eliminating tariffs on many products that play important roles in the U.S. economy. A quarter million U.S. companies export to foreign markets and the large majority of them are small and medium-sized businesses that employ 500 or fewer workers. According to the U.S. Chamber of Commerce, more than 230,000 small to

medium-sized businesses account for nearly 30 percent of U.S. merchandise exports. The number of such companies exporting has more than doubled since 1992. Of the small to medium-sized businesses that do export, nearly two-thirds of them sell into only one foreign market. Unlike big multinational companies that can afford to establish foreign affiliates to avoid trade barriers, exports are often the only way for small to medium-sized businesses to sell into the global market place.

It is important for Congress to pass the pending FTAs with Colombia, Panama and South Korea, especially when other countries with whom the U.S. is in direct competition, such as Canada, are beating the U.S. to securing bilateral trade deals with these nations. Canada has reached a free-trade agreement with Colombia that will improve market access for both nations' agricultural products, as well as industrial goods and services. Small to medium-size manufacturers will be locked out of important markets if we cannot secure deals that will lower barriers for our exports.

In addition, the government should focus financial considerations and government expertise and contacts to help small businesses export. We at Krause Corporation have the products and technology. But we need governmental assistance.

- 4) Help Control Rising Health Care Costs. Krause Corporation's annual health care costs represent \$857 per machine unit we sell. Of critical importance is the fact that none of our global competitors have a direct comparable expense in their pricing. Health care costs for Krause are doubling every 4-5 years, and represent a greater risk to small businesses than \$140 per barrel of oil. We must find a market-based solution that looks at increased competition, tort reform, increased administrative efficiencies, cost transparency, purchasing pools and the reduction of mandated coverage requirements as ways to control cost.
- 5) Continue the Government's Commitment to Renewable Fuels. Renewable fuels have become very important to the economic health of rural America. This industry is still in its infancy and therefore very susceptible to fluctuations in the capital markets. Since the credit crisis began, a number of planned renewable fuels plants have been put on hold or canceled, dealing an economic blow to the rural communities where they were to be located. In this environment, if the government were to take steps to modify the Renewable Fuels Standard, investors would flee the industry and given what a renewable fuel plants can mean to a rural area, that would be devastating. According to the Nebraska Public Power District, the average ethanol plant has the following economic impact on a rural community: \$100 million in capital construction investment; a boost of more than \$70 million to the local economy during construction; expansion of the local economic bases by another \$70 million per year; approximately 35 new direct full-time jobs and another 80-90 additional jobs in the area; increased household income of \$7 million annually; and millions of dollars in increased local, state and federal tax revenues. Maintaining our commitment to renewable fuels is not only good for national security, the environment and agriculture but also our nation's rural populations.

Whatever the course of action, I cannot stress enough that we must restore confidence in the market place. While times are tough, I am confident my company and industry will survive to see better days and with proper government action those days can be closer than they appear today.

Thank you again for the invitation to testify before you today. I will be happy to answer any questions you may have.

Respectfully,

Richard A. Brown
President and Chief Operating Officer
Krause Corporation