FARM AND RANCH RISK MANAGEMENT ACCOUNTS (FARRM): HOW WILL LEHIGH VALLEY FARMERS BENEFIT?

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON
TAX, FINANCE, AND EXPORTS

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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FARM AND RANCH RISK MANAGEMENT ACCOUNTS (FARRM): HOW WILL LEHIGH VALLEY FARMERS BENEFIT?

THURSDAY, AUGUST 9, 2001

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Subcommittee met, pursuant to call, at 9:30 a.m., at Pen Argyl Borough Hall, Ground Floor, 11 North Robinson Avenue, Pen Argyl, Pennsylvania 18072, Hon. Patrick J. Toomey [Chairman of the Subcommittee] presiding.

Chairman TOOMEY. Well, good morning, everybody. The hearing will come to order now. I want to start by thanking everybody for being here, and particularly, the witnesses from across the Lehigh Valley who have come to share their expertise and the specific experiences that they have had in farming and how some tax risk management measures could be helpful. I also want to thank the Ranking Member of this Committee, Bill Pascrell, a Member of Congress from New Jersey, who I have come to know and respect a great deal. I appreciate his coming out here to be with us.

And let me say briefly the purpose of the hearing. A hearing is a fundamental part of the legislative process in Congress. Congress conducts a whole series of hearings to get input from the people who would be affected by virtually every bill so that we can learn the strengths and weaknesses, improve the bill, and make sure that it really makes sense. We have these hearings in Washington, but we also have these hearings across America.

Today, we are here in Northampton County in Pennsylvania to hear firsthand from farmers in this area who would be affected by farm accounts. And we will take the testimony that you provide, the written testimony, the oral testimony, and then the question and answer phase, and we will submit that to our colleagues back in Washington and use that to make sure that we develop this legislation properly and also to advance momentum behind this legislation. I think we all support the idea of farm accounts and we are looking for ways to promote it so that it becomes a high priority.

This morning, the Subcommittee—and this is the Small Business Subcommittee on Tax, Finance, and Exports—will be examining this legislation which is aimed at providing a tax incentive to farmers to save for any future downturn in agricultural markets and also to even out the tax burden that farmers face. The Subcommittee will hear from four farmers from the Lehigh Valley who every day bear the effects of fluctuating market prices as well as fluctuations in weather.

These weather and uncontrollable and unpredictable weather and market developments really determine whether or not farmers are able to harvest a crop and what price they receive for the commodities that they are able to bring to market. Farmers clearly face serious financial problems in poor years when they don't earn enough farm income to cover farm expenses. And consequently, farmers need new ways to manage risk to stabilize their net income.

A new and innovative risk management tool for farmers, called FARRM accounts, which stands for Farm and Ranch Risk Management Accounts, would provide a tax deferment to help farmers save for years when prices are low or crops are poor. This type of self-insurance program will help agricultural producers to weather the ups and down of the farm economy.

FARRM accounts have been introduced in both the House and the Senate. H.R. 662, the Farm and Ranch Risk Management Account, was introduced by Representatives Hulshof and Thurman, has 100 cosponsors, including myself. Senate Bill 313, the Farm, Fishing, and Ranch Risk Management Act, was introduced by Senators Grassley and Baucus. Additionally, the FARRM provision was included in both the President's initial tax package and a tax bill that I introduced earlier this year.

Both versions of the Farm and Ranch Risk Management Act—that is a bit of a tongue twister—if enacted, would allow farmers to put up to 20 percent of their annual income derived from farming into a tax-deferred trust account. Money would not be allowed to remain in the FARRM accounts for more than five years. However, at any time during that period, money could be withdrawn to help stabilize an individual's income during a bad year of either low crop prices or harsh weather or both.

Let me give an example. If the taxable net farm income for a particular farmer is $100,000 in a particular year, say, this year, well, that level of income attracts a high marginal tax rate on that income. That farmer, with FARRM accounts, would be able to elect to contribute up to $20,000, or 20 percent, to his FARRM account, thus reducing the farmer's net taxable income to $80,000, and reducing his tax burden for that particular year.

Now, the $20,000 that he puts in this account may be withdrawn at any time within the next five years in order to supplement the farmer's income when he experiences a particularly bad year. When withdrawn from the FARRM account, this deferred income is then counted as taxable income in the year in which it is withdrawn. The farmer would have the discretion to withdraw the money in a year when his income is low. And that money then withdrawn in that year, of course, would be taxable at a much lower rate than if it were taxable in the year in which his income was higher.

The FARRM Act, which actually passed both the House and the Senate during the 106th Congress, has the continued support of agricultural groups, such as the American Farm Bureau Federation, the American Soybean Association, National Corn Growers Association, the National Pork Producers Council, National Cattlemen's

Beef Association, and the National Council of Farmer Cooperatives. As a cosponsor of this legislation, I look forward to working with Representative Hulshof to move this legislation through the House during the 107th Congress.

I look forward to the testimony of the witnesses who have joined us today. Again, I want to thank the Subcommittee's Ranking Member, Mr. Pascrell, who has joined us from his district in Northeastern New Jersey. Mr. Pascrell clearly understands the positive impact this legislation will have on farmers in the Lehigh Valley, and across America. And, at this time, I want to thank him and yield to him for his opening comments.

[Mr. Toomey's statement may be found in appendix.]

Mr. PASCRELL. Thank you, Pat. Good morning, everyone. It is really an honor to be in Northampton County. When, as I drive through the towns, as I get over the river, it was a short drive. I thought what a great country this is that an urban Congressman will come to Pennsylvania and our problems may be different. I don't think there is any farms in my district, to be very honest with you. But I have always been interested in agriculture and understanding quite well the problems that you face.

Isn't it interesting in America what democracy is all about, is that regardless of where we are from, we need to open up to problems that exist in other areas. And this is what makes us a United States of America. So no problem is too small or too large.

I support this program 100 percent. I know in the past the House and the Senate in the 106th Congress—we not only want it to pass, but we want it to become a reality because I know of the problems that farmers, particularly small farmers, are facing.

And I want to—I commend Pat Toomey for understanding and appreciating the fact. You know, we deal—we have dealt in the past 30 years in this country with large farm corporations and conglomerates, I think, many times to the detriment of the small farmer and rancher. I think that has changed. I think there is sympathy within the Congress. There must be. Because your survival is important to the Nation's survival. And unless we understand—if we don't understand that, we are not really going to fundamentally understand what agriculture is all about and what it has meant to the growth of this greatest democracy that man has ever known.

So I come across the river into a beautiful county. And I want you to know I am very proud to be here as an American, more so than for as a Congressman. And I would really like to spend some time in the area. But, of course, these hearings, you move back into your district afterwards. But, Pat, you have my total support. Americans pay less for food per capita income than the rest of the industrialized world. Farmers and families that depend on them here and across the country face a variety of challenges that we are going to hear from you today—primary sources, primary resource for us, in order to make sure that we get this legislation law. So, Pat, thank you for inviting me.

Chairman TOOMEY. Thanks for coming. I really appreciate it. At this time, let me just briefly explain the way our system will work. I will recognize each of the witnesses, one after another. We have got a clock here. It runs for five minutes. There is a green light.

When there is one minute left, it goes to yellow. And then, when the five minutes are up, it goes to red. We don't have to stick to that right to the second, by any means, but it gives you a guide. So that we will just try to keep the opening statements to about five minutes. And then we will have a series of questions and we will go from there.

At this point, I would like to recognize—and first, I would like to thank him for joining us and for all his input that he has given me over the years on agricultural issues, Ken Wedde, from Bath, Pennsylvania. Ken.

STATEMENT OF KENNETH R. WEDDE, BATH, PA

Mr. WEDDE. Well, thank you. I would like to thank everybody that invited me here today. I live in Northampton County, Moore Township, and I farm 375 acres of corn, 250 acres of beans, and about 60 acres of wheat. And I have got five reasons why this FARRM account would help me out.

First of all, like you guys said before, the 20 percent deduction off a good year. Now, I am up in age, but instead of—if I have a real good year, and I have a good year of income, either I have to spend that money on machinery or whatever, to go and—how should I say—to reduce my taxes. This way, I could put it into this FARRM account and maybe next year or the following year, I could take some of this money out and put it in when I don't have a good year. So this is one good reason that I think this would be good thing.

The other thing is, up to five years. But the way I understand it, if you put money in the first year, first in, first out. And in the second year, if you put money in, that would be actually be going in the sixth year and so on, and so forth. So this is another good thing. This could go up to ten years as a reduction if you don't—you know, if you might have two or three good years and maybe you might have four or five bad years. You don't know. So this is another good reasons I think this FARRM account would be good.

The withdrawal, like I mentioned before, would be very well. This account could be taken out at any time. And the other thing is, you have put this money in a bearing account, which will be drawing interest for you in good years and then taken out in the bad years.

So I have got an example here. Last year, I contracted corn at 2.75 a bushel. And usually, my average—I don't have it figured out—perhaps I should have figured it out. But I usually have around 36,000 bushels, up to 40,000 bushels of corn a year. And this year, the best I could do was 2.33 a bushel, contracted price. So now, like last year, I had a good year and this year, the year wasn't that great, as far as I know. So that is an up and down situation with agriculture. And we can't help it. This is supply and demand. So this would be the other thing.

The other thing I would like to talk about is foreign trade. I think it is very important that farmers are—would have this foreign trade. I don't know—do you want to get into that, Pat, or not or do you want to leave that out?

Chairman TOOMEY. If you want to make a brief comment on trade, Ken, that is fine.

Mr. WEDDE. Yeah. I think we should. Thirty percent of the commodities raised in the United States are sent overseas. And I think it is very important, you know, especially the last couple of years, the farm income has been down. And with foreign trade, this could be brought up, I think, quite a bit. But it has to be an even thing. We don't hold sanctions against foreign countries, and I think that is the biggest problems there.

So with that, I would like to thank everybody that invited me here and, thank you.

[Mr. Wedde's statement may be found in appendix.]

Chairman TOOMEY. Thank you very much for your testimony, Ken. At this time, I will recognize—and also, I want to thank him for his input on agricultural issues and for the good job he does representing the interests of local farmers, Brian Dietrich, from New Tripoli.

STATEMENT OF BRIAN DIETRICH, NEW TRIPOLI, PA

Mr. DIETRICH. Okay. Thank you, Pat, and good morning. My name is Brian Dietrich and I am President of the 675-member Lehigh County Farm Bureau and I am also a dairy farmer. My family and I own and operate a 500-cow dairy and farm 1,200 acres for the main purpose of feeding our dairy herd and replacements.

We are a third-generation dairy farm. I appreciate the opportunity to testimony on behalf of not only myself, but also the Lehigh County Farm Bureau in support of Fish Farm and Ranch Risk Management Farm Account legislation. I and my fellow farmers have lobbied aggressively the past several years to have FFARRM account legislation passed by Congress to no avail. In the meantime, dairy farmers, including myself, have seen huge swings in the price we receive for our milk.

In the past several years, I have received prices as low as $12.20 per hundredweight to prices as high as $18.80 per hundredweight. While costs of production are somewhat more predictable, uncontrollable factors, such as the weather conditions, can have a tremendous impact on costs. Developing and maintaining a solid business plan to manage the fluctuations of the market price and costs of production, is difficult, to say the least.

The prices that farmers and ranchers receive for their commodities are determined by forces they can't control, commodity markets, and the weather. Farmers and ranchers do not know from one year to the next if their businesses will earn a profit, break even, or operate in the red. Few other industries must face such a challenge year after year after year.

Risk management tools are badly needed in production agriculture. Congress seemingly recognized this fact when the 1996 Farm Bill was passed to allow farmers to meet the market. Promises were made by the Congress, at that time, to provide more risk management tools for farmers because of their increased market risks. FFARRM accounts seem like a logical cornerstone to help farmers manage volatile markets, and yet we still are waiting for passage of this legislation to help fulfill promises made.

It is probably difficult for people who have never operated a business to understand how important of a tool it would be for farmers to have the ability to save a portion of their earnings tax free during good years, for the use when the rainy days come. Ironically, for farmers, we are probably not so much saving for the rainy days as we are for the hot, dry sunny ones.

People who own a business understand that when you show some good returns for your labor at the end of the year, you have two choices to make. One, you can pay a lot of income tax and watch your hard-earned money go to Washington, DC, or you can reinvest that money in your business to avoid sending some of that money to D.C. I doubt it will come as a surprise to some that most prefer to spend the money on their businesses. Either way, the money is gone, and when the lean times come there is no available cash to make up for the shortfalls farmers experience. This can be a viscous cycle that drives farmers deeper and deeper into debt.

Passage of FFARRM accounts would provide farmers the opportunity to change their business practices in a way that we can better assist ourselves in planning for the inevitable cyclical nature of our businesses. This should help lessen the need for government assistance when market disasters occur.

My position, as President of the Lehigh County Farm Bureau, gives me responsibility for the grassroots process that our organization uses to develop its policy positions. I listen to hours of debate on farm policy in the county and state and I can't think of another idea that makes—that has such enthusiastic support as Farm and Ranch Risk Management Accounts. Farmers like the idea that the government wants to make it easier for them to save for a rainy day.

I ask each and every member of the Small Business Committee to get behind FFARRM accounts. Speak to your fellow representatives about the wisdom of doing something to improve the farm economy long term. The future of production agriculture is dependent on new and innovative tools, like FFARRM accounts, to help farmers and ranchers manage their financial risks. Thank you.

[Mr. Dietrich's statement may be found in appendix.]

Chairman TOOMEY. Thank you, Brian. Now, I would like to welcome and introduce another gentleman who has been a great advocate for small farmers, who is, I believe, the legislative representative from the Lehigh Country Farm Bureau, and maybe the only one of the witnesses who is a veteran at testifying before Congress, because Arland Schantz testified before the Agriculture Committee at my invitation in Kutztown a couple of years ago. Thanks for being here, Arland, and I recognize you now for your opening statement.

STATEMENT OF ARLAND SCHANTZ, ZIONSVILLE, PA

Mr. SCHANTZ. I would like to thank Sean McGraw, the Staff Director of the Committee of Small Business, and, of course, Chairman Toomey, for inviting us farmers here today to express concern about such an important issue to the farm community. And also as a member of Lehigh County Farm Bureau, I want to thank Congressman Toomey for his continued support and effort to help solve the problems we encounter back on the farm, and also Ranking Member Pascrell. We thank you for your time and coming to the hearing and holding the hearing.

We are here today to discuss Farm and Ranch Management Accounts. There are few occupations, if any, that are more uncertain than farming. As you can see, here in front of me, from these two Christmas tree seedlings that I brought along, sometimes you make it, and sometimes you don't.

As a farm owner and operator of a general crop, hay, and Christmas tree farm in Lehigh County, I try to adhere to the best management practices according to modern scientific technology, as well as add many years of on-the-job training. As you can see, the results still are not completely satisfactory.

For example, experience dictates that Christmas tree seedlings should be planted early in spring when conditions are normally cool and damp. But as we all know, this spring conditions were hot and dry, and many of the seedlings just did not survive like this one right here. A similar problem occurred in the hay fields. The new alfalfa seedlings did not survive this past spring because of the hotter, drier weather early in the spring and must now be replanted in fall. One year's production is lost, or was lost. Time and money must be put forth to replant these crops along with the potential loss of income because of the delayed planting and the lack of crop for this year.

This might not be much of a problem if farming was a high-income, high reserve type of occupation. But this definitely is not the case. In a time of depressed commodity prices and high input costs, farmers are barely hanging on financially the way it is. In general, there are no reserves available and local taxes never fail to come due. One can only borrow so much against the farm real estate, and that only incurs more expense through interest expense.

Farm and Ranch Risk Management Accounts would allow us to take reserve monies from a good production year or a good price year and let it earn interest in a nontaxable account for up to five years. This money could then be used for assistance through the devastating conditions Mother Nature heaps upon us or the low market prices of which we have no control over.

A strong agricultural industry nationwide means a strong and healthy country. That is why I urge the U.S. Congress to make FARRM accounts available to us in the very near future. Thank you.

[Mr. Schantz's statement may be found in appendix.]

Chairman TOOMEY. Thank you, Arland. And, at this time, I will recognize Cheryl Bennecoff. Cheryl has come to us from the far western reaches of Lehigh County, so it is a long trip for you and I appreciate your coming today.

STATEMENT OF CHERYL BENNECOFF, KUTZTOWN, PA

Ms. BENNECOFF. Thank you for inviting me to speak at today's hearing. My statement is made on behalf of not only myself, but over 28,000 rural and farm families of the Pennsylvania Farm Bureau. My name is Cheryl Bennecoff and we run a farm family operation that has been in the family for four generations and 100 years. We farrow to finish 80 sows, specializing in purebreds. We farm 250 acres, raising corn, soybeans, wheat, barley, and oats.

Farm Bureau is most appreciative of legislation passed in Congress in recent years to provide immediate relief for farmers and ranchers who have suffered from weather and market disasters. If similar emergencies are to be minimized in the future, farmers and ranchers must have new and innovative ways to deal with uncertain incomes caused by weather and markets. Congress must act to give producers the risk management tools they need to manage financial jeopardy caused by unpredictable weather and markets.

The pig market provides no guarantees. It is always changing, never knowing what price we will receive. Two years ago, when times were bad with the drought, we also experienced low fat pig prices. They were down to 15 cents per pound. Prices increased to 38 to 39 cents the following year. To break even, we need 42 to 43 cents, and to make anything extra, 50 cents. Prices have continued to improve since then. Right now, they stand around 49.5 cents per pound. I would like to believe that prices will continue to improve and remain at profitable levels in the future. However, history has taught us all too well that will likely not be the case.

Fish, Farm and Ranch Risk Management Accounts, FFARRM accounts, are exactly the kind of risk management tools that farmers and ranchers are looking for. Using these accounts, producers will be encouraged to save up to 20 percent of their net farm income in higher income years by the benefit of deferring taxes on the income until the funds are withdrawn. The program is targeted at real farmers, contains guarantees that the funds will not be at risk, prevents abuse by limiting how long savings could be in an account for up to five years. FFARRM accounts are simple, and that is why they are so appealing to farmers. Farmers would decide when to save rather than spend and when to withdraw and pay taxes on the money.

Legislation to create FFARRM accounts, H.R. 662, has been introduced by Representatives Kenny Hulshof and Karen Thurman. These are two smart representatives because they have written their bill so that producers of all commodities, from all sizes of operations, who come from all parts of the country, can take advantage of FFARRM accounts. That is the reason many agricultural organizations and over 100 Congressional representatives support the bill.

We know that members of the Small Business Committee understand the need for FFARRM accounts. But I must tell you that many of my fellow farmers wonder why it is taking Congress so long to pass them into law. When agriculture agreed to support the phase-out programs in 1996, it was with the full expectation that Congress would make good on their promises to reduce regulations, expand markets, and provide risk management tools.

I have been told that passage of H.R. 662 would cost $500 million over five years and $900 million over ten years. Rather than talking about cost, I think we should all be talking about the benefits of the legislation. It would be better to say that FFARRM accounts will provide an important safety net for farmers and ranchers worth just short of a billion dollars.

Many growers of perishable commodities, along with the producers of livestock, poultry, and other nonprogram groups, have had the benefits of a farm program—have never had the benefits of a farm program safety net. What all farmers hope for is that good years will outnumber the bad ones.

Believing that better times are coming, farmers and ranchers get through their tough times by spending their retirement savings, borrowing money, refinancing debt, putting off capital improvements, and lowering their standard of living. All of these activities damage the financial health of a farm or ranch and the well-being of the family operating the business. We rely on management skills, marketing ability, and a little luck with the weather, to make our businesses turn a profit. We are always looking for new and innovative risk management tools to help us manage our businesses successfully.

Pennsylvania Farm Bureau asks for you to support the FFARRM accounts. We urge Congress to pass them into law as soon as possible. Their creation will give farmers and ranchers a meaningful incentive to save for a rainy day and provide a valuable, very valuable, tool for managing financial risk.

Thank you for your time and consideration of this most important issue to our Pennsylvania farmers.

[Ms. Bennecoff's statement may be found in appendix.]

Chairman TOOMEY. Thank you very much. I have got some questions I will begin with. But before I do, I want to take a moment to thank Jaymes Vettraino, who is the Borough Manager of Pen Argyl, and Pen Argyl Borough, for allowing us to use this facility for the hearing this morning.

My question—and I will start off with you, Cheryl, if I could. In your testimony, you indicated that your break-even price is about 42 to 43 cents a pound. And if I understood correctly, you have had to sell as low as 15 cents a pound. Today, the price is close to 50 cents. Of course, its future is uncertain. Just to state the obvious for the record, so that we have got it clear, a year in which the majority of your output is sold at the lower end of that range, you finish that year in the red. I mean, you actually incur a cash loss——

Ms. BENNECOFF. Right.

Chairman TOOMEY [continuing]. For your business. Is that correct?

Ms. BENNECOFF. Right. And on top of the drought, too, it doesn't help.

Chairman TOOMEY. Right. The very next year, is it possible that the price could be back up in the high 40s or 50 cents where you could have a problem?

Ms. BENNECOFF. If the weather holds out with the crops on top, and, you know, we would need a couple of years to sort of recoup back to where we were.

Chairman TOOMEY. To recover. Okay. It seems to me that that is exactly the kind of the circumstances in which this kind of farm account would be helpful.

Ms. BENNECOFF. Right.

Chairman TOOMEY. Because if you have a particularly good year, there is no assurance that that is going to continue.

Ms. BENNECOFF. Right.

Chairman TOOMEY. In the last five years, have you had both profitable years and money-losing years?

Ms. BENNECOFF. We mainly have just break-even or nonprofit years. We are—we just struggle to survive.

Chairman TOOMEY. So if you had a good year, it would be all that more important——

Ms. BENNECOFF. Right.

Chairman TOOMEY [continuing]. That you be able to take some of that income——

Ms. BENNECOFF. And put it away.

Chairman TOOMEY [continuing]. And not have a very high tax rate on all of it——

Ms. BENNECOFF. Right.

Chairman TOOMEY [continuing]. Save it for that rainy day when——

Ms. BENNECOFF. Right. Because usually what we try to do is put it back into the farm so it doesn't have to be taxed like other statements were said.

Chairman TOOMEY. Right. Thank you.

Ms. BENNECOFF. Thank you.

Chairman TOOMEY. Brian, you mentioned that the price fluctuations in recent years of your products, the dairy products, have ranged from $12.20 to $18.80. About what do you consider your break even to be in price terms?

Mr. DIETRICH. Our break-even is usually around $12.50 to $13.00—in there.

Chairman TOOMEY. Okay. And is that pretty typical of dairy producers in the Lehigh Valley do you think?

Mr. DIETRICH. That is pretty typical of ones in the Lehigh Valley. Larger ones, when you get into different parts of the country, may be of lower cost of productions. But in the Lehigh Valley, I think that is pretty typical.

Chairman TOOMEY. So, again, just for the record, so that people understand, because most businesses are a little different from agriculture, as you know. Most businesses, if it is a good year, you make a substantial amount of money, and a bad year, you don't make quite so much. But it is my understanding that if you go through a year when milk prices are at $12, you are going to lose money.

Mr. DIETRICH. Oh, absolutely.

Chairman TOOMEY. And you are just going to finish the year in the red, out-of-pocket cash. And in a subsequent year, if prices are at 18, you are going to make a nice tidy profit.

Mr. DIETRICH. Right.

Chairman TOOMEY. But if that all gets taxed at the highest possible tax rate, because it is a good income year for you, then you lose the opportunity to cushion the bad years. Is that the way you view this?

Mr. DIETRICH. Absolutely. Actually, since, well, the '96 Farm Bill, the milk prices are fluctuating unbelievably. Right now, the prices are pretty decent. And I am just hoping that this legislation can get passed because it is going to mean a big difference for us because there is times when that—the bottom just drops out of the milk price. And in that year, it is like pathetic. And over the last five years now, we have had a couple of—well, we had the drought in there—but we had a couple of years that were, you know, not very good. And we had years that were pretty good.

Chairman TOOMEY. Right.

Mr. DIETRICH. So in those pretty good years, we are sending all the money that—to Washington.

Chairman TOOMEY. And this would effectively sort of even out the flow a little bit——

Mr. DIETRICH. Yes.

Chairman TOOMEY [continuing]. And balance that off.

Mr. DIETRICH. Absolutely.

Chairman TOOMEY. Okay. Ken, you had mentioned that you grow three different crops. Corn is your biggest——

Mr. WEDDE. Right.

Chairman TOOMEY [continuing]. Soybean is next——

Mr. WEDDE. Right.

Chairman TOOMEY [continuing]. And then some wheat. And you have also seen big fluctuations in those prices. Could you give us a general idea—take corn, for instance—approximately what is your break-even and what has been the high and what has been the low in the course of the last, say, five years?

Mr. WEDDE. My break-even is about 2.30.

Chairman TOOMEY. Okay.

Mr. WEDDE. And the highest I have ever got for corn was 3.45.

Chairman TOOMEY. Okay.

Mr. WEDDE. That was back in 1998, I think. All right. But ever since that, the corn prices dropped. And then, of course, we had that bad year in '99 with that drought. That really was a bomber.

Chairman TOOMEY. Right.

Mr. WEDDE. But overall, the last couple of years, there was no profit margin in farming grain.

Chairman TOOMEY. Right.

Mr. WEDDE. The overall expenses—especially now this year, I contracted corn at 2.33. Now, I haven't figured out—we had a dry summer. The herbicides didn't work. I had to go back in the second time. Usually, the first time herbicides will cost you anywhere from $15 up to $20 an acre for the first time. The second time you go in it is going to cost you anywhere from $20 up to $30 an acre——

Chairman TOOMEY. Uh-huh.

Mr. WEDDE [continuing]. Because you have to use a special herbicide. Now, I haven't figured that out yet. And it still didn't work——

Chairman TOOMEY. Uh-huh.

Mr. WEDDE [continuing]. On the dry weather. So this is what I say. With the FARRM account, you can even out your income more or less——

Chairman TOOMEY. Right. Right.

Mr. WEDDE [continuing]. From year to year.

Chairman TOOMEY. So it sounds like to me is you have a risk of not only weather conditions, and not only the commodity, price fluctuations, but also some years in which your inputs vary significantly.

Mr. WEDDE. Right. Right. Absolutely. Yes.

Chairman TOOMEY. So all three of those variables are at play. If everything comes together, great, the price is strong and the weather is good, and the insects aren't a problem, you have a good year.

Mr. WEDDE. Right. Yes.

Chairman TOOMEY. And when things—but most years, in recent years, you have been basically operating at about a break-even.

Mr. WEDDE. I know you—I am farmer, but as you drive along and you just look at the soybean fields right now, at the edges, they are turning brown——

Chairman TOOMEY. Uh-huh.

Mr. WEDDE [continuing]. And that is from the spider mite.

Chairman TOOMEY. Okay.

Mr. WEDDE. And, really, we should go in to spray that right now. But I am hoping for rain in the next couple of days. And if we have to go in for spraying for spider mites, it is going to cost $9 an acre just to go into spray with equipment, plus the spray material, which could be another $3 or $4 an acre. So there is another $13 there. And I did spray twice before with Roundup one time early and another time later on. So you have another cost of maybe $30 there. And the soybean prices are terrible—worse than corn prices.

As a matter of fact, this year—last year I did the same thing. I took a loan out on the soybeans and I am going to turn the soybeans over to the government at the end of this year, at the end of the ninth month, because I can't sell the soybeans for what the market is. I can get more on a loan price than at the market price.

Chairman TOOMEY. Thank you. One last quick question. Arland, your main products are Christmas trees and hay.

Mr. SCHANTZ. Yes.

Chairman TOOMEY. And my understanding is that those prices don't tend to fluctuate quite as much as the grains, for instance, in terms of the commodity prices themselves. But you have all the same risks on weather and input costs. Do you still see the variability in income that would really justify your using farm accounts?

Mr. SCHANTZ. Yes. Because we still have the problem with the weather. Will we get a hay crop? Won't we get a hay crop? Some years get more. Some years get less. And the same thing with the Christmas trees. Will you have trees or not? You know, will—not only drought, as you can see here, affects the trees, but, like Kenny was saying, there are certain insect problems, certain fungus problems, that can hit depending on the conditions. And that could not necessarily wipe out your crop, but could reduce the marketable availability of the crop. So it very much is a variable type income also, even though price-wise I do have maybe a little better control over it than just the commodity market price.

Chairman TOOMEY. Okay. Thanks. Bill?

Mr. PASCRELL. Yeah. Thank you. Ms. Bennecoff, I am interested in your testimony on the fourth page. I think you have kind of hit the nail on the head. When you said rather than talking about cost, I think we should all be talking about the benefits of the legislation. It would be better to say that FARRM accounts will provide an important safety net for farmers and ranchers worth just short of a billion dollars. What—how do we get people to understand that this is an investment that we are making here? I mean, that is critical. We have got to get this thing signed and passed into law. I mean, that is the objective here. We could get caught up in the minutiae and, you know, pat ourselves on the back and have no law by the time we finish this session—this Congress. How do we get people to understand that this is an investment?

Ms. BENNECOFF. Well, they are investing in the future of the small farmer, which, like was said in the beginning of the session, which is what—you know, what agriculture is, is if there is no small farmers coming up, if there is no incentive, like for our children, which will be the fifth generation coming up, which my son shows a lot of interest in—but if there is no incentive, that—not necessary to make profit. We are not in it for that. It is the whole—how do I want to say it—it is my husband's—not a hobby either. It is his lifestyle. It is what he believes in. You know, the country needs food. If there is no farms, there is no food.

And they got to realize that if we are not helped, the small farmer—there is no incentive for the families, like Brian's generation also, to take over that business—and where are the farmers going to come from? They can't be taught in a school. They have to have that hands-on. And I think to save the small farmer, to help the—you know, maybe one time he will get a chance to go work for a larger farmer. But if he doesn't have that hands-on experience, it is not going to be there. So they have to realize that we have to save the small farms, and this program will help save the small farms.

Mr. PASCRELL. We talk about investment—that is one of the arguments I use in talking about investment on a state level and federal level in education. It is an investment in our future——

Ms. BENNECOFF. Right.

Mr. PASCRELL [continuing]. For children. I see this the same way. And this, to me, is no different than investing in research and development in many areas.

Ms. BENNECOFF. Exactly.

Mr. PASCRELL. We have spent a heck of a lot of money. And wondering sometimes where the money goes to——

Ms. BENNECOFF. Uh-huh.

Mr. PASCRELL [continuing]. In certain areas. Will you put off capital improvements if you don't have the money? This is for everyone. If you don't have the money to invest in capital improvements, you become less competitive.

Ms. BENNECOFF. Exactly.

Mr. PASCRELL. You become less able to deal with that present market at that time. Can anybody give me any specific examples of that? That because you had a couple of bad years, you didn't have the money—you were trying to put food on the table. Brian?

Mr. DIETRICH. Yeah. I would like to address that. I have a perfect example. The last couple of years, the milk prices were stagnant to low. Our barn was—our new dairy barn, what we call our new dairy barn, was built in 1981. Okay. It is 20 years old. So there is a lot of updates that we should be doing to that barn over the last number of years. As far as doing more of the modern things, as far as keeping it cool in this hot weather, keeping the cows cool, maybe putting more fans in or putting a sprinkler system in, or putting curtains up on the sides instead of mounted steel. Now, since the milk prices are up this year, we are taking that money and putting it into that barn. I said to my brother and my sister, I said, this is the year to do it because who knows where this milk price goes. Next year it may not have the chance. So we better put some capital improvements into that barn to stay competitive, keep our production up, keep it more even, rather than, in this hot weather, see it plummet.

Mr. PASCRELL. When you are looking at a large federal budget, the amount of money that we are talking about here, that is really insignificant, and yet it could help a heck of a lot of people. I would like to ask anybody in the Panel, how do we stop this money to get to—getting to the large conglomerates and that the small farmer can't take advantage? Because that is who we want to help. We want to help the small farmer. I think that is important and I think it is critical.

And I want you to know that even though I may be across the river and in an urban district, I feel that this is critical—as critical as cleaning up the streets in my cities. And I want you to understand and believe me, I am sincere about that. I see this as critical in bringing us, you know, together. This still is one Nation, and I think that this is important. But how do we keep this money targeted and focused to the small farm and not to the large conglomerates? Ken?

Mr. WEDDE. What do you consider a small farmer, to start out with?

Mr. PASCRELL. Well, you are a small farmer.

Mr. WEDDE. You are absolutely right.

Mr. PASCRELL. I guessed right.

Mr. WEDDE. Compared to everybody else.

Mr. PASCRELL. What do you got, 250 acres or——

Mr. WEDDE. Yeah.

Mr. PASCRELL [continuing]. How many acres?

Mr. WEDDE. But how big must you be to stay in agriculture?

Mr. PASCRELL. No. I am asking you.

Mr. WEDDE. The way it is going, we are going to force out the small farmers. And that is the way it is going right now.

Mr. PASCRELL. Is that good or bad?

Mr. WEDDE. That is bad.

Mr. PASCRELL. I think it is bad. You tell me why you think it is bad.

Mr. WEDDE. Well, you don't have the competition. We are seeing it already. We have less and less farm equipment dealers around.

Mr. PASCRELL. Uh-huh.

Mr. WEDDE. We have less and less fertilizer dealers around. And this way, the farmers are supporting a lot of people. You have the tire industry. You have the fuel industry. You would be surprised how many industries that farmers are supporting. And my son can't start farming. The cost is too expensive.

Mr. PASCRELL. Uh-huh.

Mr. WEDDE. How are you going to keep them on the farm? If there would be a half-decent income, you would have a lot of young farmers coming in here.

Mr. PASCRELL. You think so.

Mr. WEDDE. I would think so. Yes. And maybe I am getting off the subject here——

Mr. PASCRELL. No. You are not. I think you are right on target.

Mr. WEDDE [continuing]. But let us go take farm land preservation. What has farm land preservation done for a farm? I would say 95 percent of those farmers in farm land preservation, the only reason they went in there, to pay their expenses. What have they got left? Nothing. Now, you sell the farm.

Mr. PASCRELL. That is right. And we don't—we want—and that is why I think it is imperative that there be, in this program, accountability. Part of the accountability is that the money be directed to the small farmers like yourself and folks that are being represented today. I think that is essential. I think it is important. That is how we sell—part of how we sell this—become law.

Mr. WEDDE. And the other thing is, you ask any young generation, where does the food come from? Out of the store.

Mr. PASCRELL. You are right.

Mr. WEDDE. They don't know where it is coming from.

Mr. PASCRELL. Yes.

Mr. WEDDE. One day they will find out where it is coming from.

Mr. PASCRELL. Or Mexico.

Mr. WEDDE. Yeah.

Mr. PASCRELL. You don't want me to start talking about that.

Mr. WEDDE. And they won't have the quality of what they have today. Sorry that I got a little heated up.

Mr. PASCRELL. No. Good. That is good. That is good. I like your style. I like it. Very good. Anybody else want to jump in on the capital thing? Arland?

Mr. SCHANTZ. Yeah. I think you asked about what must be done. I think what must be done is educate the nonfarm public. I mean, we, the farmers, know what are problems are and what we need. But we have to educate the nonfarm public, first of all, where their food comes from. Second of all, that farmers are the backbone of the country, of the economy. In Pennsylvania, farming—agriculture is the number one industry. We have to educate the public that if they would like to see the open spaces, the corn fields, the soybean fields, they are going to have to support the farmer. They are going to have to—the farmer is their friend. The farmer is not their foe. When the farmer is out there driving down the road with his slow tractor, they shouldn't get mad at them. They should be happy he is there.

And I think you guys can go about that. I am not quite sure how. But you guys have the—maybe the access to the media and somehow have it support the farmer program—I mean, for the general public, not for the farmers, for the public, so——

Mr. PASCRELL. Are we losing farms in this area—small farmers going out of business—Lehigh Valley?

Mr. WEDDE. Oh, yes. Definitely.

Mr. SCHANTZ. Oh, yeah.

Mr. DIETRICH. Yes.

Mr. SCHANTZ. Oh, yeah.

Mr. PASCRELL. Is that a major, major problem or a problem in the future?

Mr. SCHANTZ. It is a problem now. Yeah.

Mr. WEDDE. It is an ongoing problem.

Mr. PASCRELL. And what is the main reason?

Mr. WEDDE. There—are you going to answer?

Mr. PASCRELL. Anybody. Yeah.

Mr. WEDDE. There—I think the biggest problem is, for one thing, they are at retirement age and they have nobody else to take over.

And the price that they can get for their farm, that is part of their retirement.

Mr. PASCRELL. There has got to be some incentive to keep the farm within the family or to sustain it.

Mr. WEDDE. I would think there are a lot of young farmers—I have got grandchildren. One is nine years old and the other is 11 years old. And this is all what they talk about, farming. But, you know, you never know what they are going to do until they get older. But I would think if the income would be supportive, they go into farming.

Mr. PASCRELL. Uh-huh.

Mr. WEDDE. And I would support that idea. But right now, I can't support that idea.

Mr. PASCRELL. It is part—Pat, I don't know if you agree with me on this—it is part of a mentality in America, growing mentality, of looking down at working with your hands. This is incredible what has happened in this country. Whether we are talking about producing food and vegetables and stock, whether we are talking about making candles or machinery or textiles, we have lost—and this is how people got their identity in this country, which made it such a great country—people worked with their hands. And why do we look down at that? Why do we think that sitting in a room and dealing with a computer is a more holy way to deal with your life in the 21st century is beyond me.

Mr. WEDDE. Do you get the Morning Call, the Sunday Morning Call? Probably you didn't.

Mr. PASCRELL. No, sir.

Mr. WEDDE. But there is a very good article in the Sunday Morning Call, "The Man Behind the Plow." Pat, did you see that—Leon Turner.

Chairman TOOMEY. I did not see that. This past week?

Mr. WEDDE. He started as an orphan boy. And he worked his way up worth a million dollars.

Mr. DIETRICH. When he retired. Yeah.

Mr. WEDDE. What young farmer can do that today?

Mr. PASCRELL. Uh-huh.

Mr. DIETRICH. Well, that is the whole problem. That is why young farmers aren't coming in or taking over. I mean, I have got children too. I was fortunate. I consider myself still young. I mean, I am 37 years old. But I had parents that worked their butt off and provided an opportunity for us children to take over their operation. And my dad had a plan over a period of so many years to have us work into the business and take over the business, eventually buy his portion out. But there is a lot of young farmers that don't have that opportunity.

Mr. PASCRELL. Uh-huh.

Mr. WEDDE. Absolutely.

Mr. DIETRICH. And why don't they have that opportunity? Because you have got $2 corn. You have got $10 or $11 or $12 milk. You have got low hay prices. You have got low, 15-cent pork prices. And that is the major reason.

Mr. PASCRELL. Well, we are—Pat and I are going to go back in September and make sure we have a lot more names, including my own—I think I am on some of the bills, but not this one specifically—want to get on this bill. And we can get names and we can build the pressure. We have done this in the past in order to bring this—see, it is not on everybody's radar screen. But this is a very critical time. And unfortunately some good will come out of disaster. The Lord knows what he is doing, whether we are dealing with heat or water problems. This is the time to move on this.

Chairman TOOMEY. Right.

Mr. WEDDE. Well, the other thing is, we are on a worldwide market. This is why I brought up exports. I think the only answer is that we do more exporting. We have to. But, you know, the dollar is strong. How can we do that there? It is not a simple answer.

Mr. PASCRELL. That is right.

Chairman TOOMEY. If I could just briefly get back to one specific technical question, I want to be able to be confident that we have got right in this bill. And this goes back to something, Ken, you mentioned in your testimony. The bill has a five-year window where you can put income into an account and you have got up to five years to take it out. And Ken is exactly right—it becomes a rolling five years——

Mr. WEDDE. Right. Right.

Chairman TOOMEY [continuing]. Because in 2001, you have got through 2006, but in 2002, you could put money aside and then you have got that until through 2007. Does that give enough of a window? In other words, is it—over a five-year period, is that likely to be a long enough period of time to see the fluctuations, to see the ups and downs, so that you can take some income out in a good year, and you probably will have a bad year to even it out? Is that a good window that we have got?

Mr. WEDDE. I would think so. Because you can just keep on rolling that along.

Chairman TOOMEY. Right.

Mr. WEDDE. I mean, I don't think you have a period of five or ten years. I mean, you get up to the fifth year, you can start rolling over again. Right?

Mr. PASCRELL. Yes.

Chairman TOOMEY. With the income from that year.

Mr. WEDDE. So, I mean, this just keeps on rolling along.

Chairman TOOMEY. Right.

Mr. WEDDE. So I think the window is great—an open window.

Chairman TOOMEY. Anybody else have any comments about that? I think that——

Mr. SCHANTZ. Yeah. I could see that maybe a longer period would be beneficial in a longer-term crop, like Christmas trees, where you have a—you know, a crop year—not a crop year, but a crop life of from seven to ten years. And like this tree, I am going to miss this tree seven years from now.

Chairman TOOMEY. Right.

Mr. SCHANTZ. Even though I am going to replant it next year, seven years from now there is going to be that gap of less marketable trees.

Chairman TOOMEY. Right.

Mr. PASCRELL. That is good point. We sort of assume that every crop comes in, in the year you plant it——

Mr. SCHANTZ. Right.

Mr. PASCRELL [continuing]. But that is not the case at all. It is not the case with livestock, obviously, either.

Ms. BENNECOFF. Right.

Chairman TOOMEY. So do you think that there is a case to be made that maybe the period of time should be related to the period of developing a product or the crop?

Mr. SCHANTZ. It would be beneficial. I mean, the five-year is great compared to nothing.

Chairman TOOMEY. Yeah. Sure.

Mr. SCHANTZ. I mean, if——

Chairman TOOMEY. Well, I think it is just something we want to keep in mind—as this thing moves through the legislative process, it is likely to change along the way.

Mr. WEDDE. Right.

Chairman TOOMEY. And this is something that, you know, maybe five years might work better for a grain farmer than it works for a pig farmer or a Christmas tree farmer.

Mr. PASCRELL. I want to ask Ken another question. Ken, you gave the example of a—because of this season, your soybean crop starting to degenerate on the borders.

Mr. WEDDE. Right.

Mr. PASCRELL. And if you want to spray again, it is going to cost you probably——

Mr. WEDDE. $13 an acre.

Mr. PASCRELL [continuing]. 23, 2,400 bucks.

Mr. WEDDE. Well, there is—oh, more than that. It is going to cost me—well, let us see, 200——

Mr. PASCRELL. It is $9 an acre. Right?

Mr. WEDDE. No. $13 an acre.

Mr. PASCRELL. It is $13 an acre.

Mr. WEDDE. $9 just for the rake. All right.

Mr. PASCRELL. So and that is—right. Go ahead.

Mr. WEDDE. And then, plus your spraying material.

Mr. PASCRELL. And what is that, $4 more?

Mr. WEDDE. Yeah. About $13 an acre. Yeah.

Mr. PASCRELL. So it is going to cost us close to 4,500 bucks.

Mr. WEDDE. Yeah. Yeah.

Mr. PASCRELL. And that is—you know, unless you have that money handy, you can't do that—unless you go—where are you going to borrow it? Where are you going to loan that money?

Mr. WEDDE. But can you leave the crop go?

Mr. PASCRELL. That is correct. Because they will eat it all up pretty soon.

Mr. WEDDE. Right. That is——

Mr. PASCRELL. And then what do you do?

Mr. WEDDE. Borrow money.

Mr. PASCRELL. Just chalk it off.

Mr. WEDDE. Yeah. You have to either borrow money or just leave it go.

Mr. PASCRELL. What do you do on your income tax in that case? What do the farmers—small farmers—is this depreciation? I mean, how do you work that out on your tax that if you have lost a crop?

Mr. WEDDE. Well, you have your cost and whatever your soybeans are, you just deduct that from your cost, so you are in the red.

Mr. PASCRELL. Right. Well, we have got to get this bill passed. Right, Pat?

Chairman TOOMEY. Yeah. Absolutely.

Mr. DIETRICH. Retroactive 2001.

Chairman TOOMEY. It would be all right with me.

Mr. PASCRELL. Where did I hear that yesterday?

Chairman TOOMEY. And we had some folks yesterday that wanted a retroactive—tax cut retroactive to, I think, 1981 or something like that.

Mr. PASCRELL. Smart people.

Chairman TOOMEY. Did you have anything else?

Mr. PASCRELL. No. I—no questions.

Chairman TOOMEY. Did any of you have any last comment you wanted to make?

Mr. WEDDE. No. I don't. I just thank you for inviting me. I appreciate that you invited me to give you my thoughts on it. Good or bad, but you got it.

Mr. PASCRELL. Okay. Thank you.

Chairman TOOMEY. We all—Brian?

Mr. DIETRICH. I would like to just add one final comment. And when I told my uncle, who helps us part time on our farm, that I was going to a hearing today, and I told him the content of what I was testifying on, he is there, oh, my God, Brian, you must get to that. He is not in business anymore. He retired. And his son is not there farming that farm anymore. And he said, boy, if that would have been around when I was still farming back in '92, '94, is when he sold out then, you know, there is definitely a possibility that his son may have taken over.

Chairman TOOMEY. Yeah. Well, I want to thank you all very much for your testimony. Your input helps us to promote this. And, as Bill was saying, we go back to Congress and we get more Members of Congress to cosponsor the bill, more names on the bill. And when we get enough, that is when the bill starts to move. And we will do our best to get that support so that we can enact this sooner rather than later. Thank you very much and the hearing is adjourned.

Mr. DIETRICH. Thank you.

Ms. BENNECOFF. Thank you.

Mr. SCHANTZ. Thank you.

Mr. WEDDE. Thank you very much.

[Whereupon, at 10:28 a.m., the Subcommittee was adjourned.]

PAT TOOMEY, PENNSYLVANIA
CHAIRMAN

WILLIAM PASCRELL, JR., NEW JERSEY
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
107th Congress
Committee on Small Business
Subcommittee on Tax, Finance and Exports
2361 Rayburn House Office Building
Washington, DC 20515-6515

Remarks of Subcommittee Chairman Patrick J. Toomey

"Farm and Ranch Risk Management Accounts (FARRM): How will Lehigh Valley Farmers Benefit? "

August 9, 2001; 9:30 AM
Pen Argyl Borough Hall
Ground Floor
11 North Robinson Avenue
Pen Argyl, Pennsylvania 18072

This morning, the House Small Business Subcommittee on Tax, Finance, and Exports comes to Pen Argyl to examine legislation aimed at providing a tax incentive to farmers to save for any future downturn in the agricultural markets. The Subcommittee will hear from a number of farmers from the 15th District who every day bear the effects of a fluctuating commodities market.

Unpredictable weather and uncontrollable markets determine whether or not farmers are able to harvest a crop and what price they receive for the commodities that they are able to market. Farmers face serious financial problems in poor years when they don't earn enough farm income to cover farm expenses. Consequently, farmers need new ways to manage risk and stabilize their incomes.

A new and innovative risk management tool for farmers, called Farm and Ranch Risk Management Accounts (FARRM), would provide a tax deferment to help farmers save for years when prices are low or crops are poor. This type of self-insurance program will help agriculture producers to weather the ups and downs of the farm economy.

FARRM account bills have been introduced in both the House and Senate. H.R. 662, the Farm and Ranch Risk Management Act (FARRM), introduced by Representatives Hulshof (R-MO) and Thurman (D-FL), has 100 cosponsors, including me. S. 313, the Farm, Fishing and Ranch Risk Management Act (FFARRM), was introduced by Senators Grassley (R-IA) and Baucus (D-MT). Additionally, the FARRM provision was included in both President Bush's initial tax package, and my tax bill earlier this year.

Both versions of The Farm and Ranch Risk Management Act, if enacted, would allow farmers to put up to 20 percent of their annual income derived from farming into a tax deferred trust account. Money would not be allowed to remain in a FARRM account for more than five years.

However, at any time during this period, money could be withdrawn to help stabilize an individual's income during a bad year of low crop prices or harsh weather.

For instance, if the taxable net farm income for a particular farmer is $100,000 in the tax year 2001, that farmer may elect to contribute up to $20,000, or 20 percent, to the FAARM account, thus reducing the farmer's net taxable income to $80,000, and reducing their tax burden for this particular year. These funds may be withdrawn **at anytime** within the next five years in order to supplement this farmer's income when they experience a particularly harsh year. When withdrawn from the FARRM account, this deferred income is counted as taxable income in the year which it is withdrawn.

The FARRM Act, which actually passed both the House and Senate during the 106th Congress, has the continued support of agriculture groups such as the American Farm Bureau Federation, American Soybean Association, National Corn Growers Association, National Pork Producers Council, National Cattlemen's Beef Association, and the National Council of Farmer Cooperatives. As a cosponsor of this legislation, I look forward to working with Representative Hushof to move this legislation through the House during the 107th Congress.

I look forward to the testimony of the witnesses before us today. I want to particularly thank the Subcommittee's Ranking Member, Bill Pascrell, who has joined us from his District in Northeast New Jersey. Mr. Pascrell clearly understands the positive impact this legislation will have on the farmers of the Lehigh Valley as well as the rest of the nation. I appreciate his attention to this matter. I now yield to my friend from New Jersey, Bill Pascrell for his opening statement.

August 5, 2001

Dear Chairman Toomey:

Good Morning! I would like to thank you for inviting me to this hearing and giving my input on FARRM Accounts.

My name is Kenneth Wedde. I live in Northampton County, Township of Moore. I farm 375 acres of Corn, 250 acres of Soybeans and 60 acres of Wheat. All my commodities are sold on the open market.

Why do I think FARRM accounts would be an advantage to farms? There are 5 good reasons:

1. I would save 20% of my net income in a Tax Deferred FARRM Account.

2. Funds could stay in reserve in the account up to 5 years.

3. Funds could be withdrawn at any time and would be taxed as income at the time of withdrawal.

4. Only active farmers could use this account.

5. Funds held in this account must be held in interest bearing accounts.

As you may know or not know farm income has a tendency to go up or down from one year to the next with the market. With FARRM Accounts I could defer my net income over a period of 5 years.

I will give an example of what I mean. Last year I sold corn out of the field (at harvest) at contract price for $2.75/bushel. This year the best I could do was out of the field (at harvest) at contract price $2.33/bushel. This is a $0.42 difference from one year to the next. I am trying to give you an idea how the commodity prices differ from one year to the next.

The other thing I think would be an advantage is the 20% net income that you could put in an interest bearing bond. This would generate more money for me.

I would like to thank you again for having me here. If there are any questions you would like to ask I will try to answer them for you.

Sincerely,

Kenneth Wedde

Testimony of Brian Dietrich
Regarding FFARRM Accounts
On Behalf of the Lehigh County Farm Bureau
To the House Small Business Subcommittee on
Tax, Finance, and Exports
August 9, 2001

Good morning. My name is Brian Dietrich. I am President of the 675 member Lehigh County Farm Bureau and a dairy farmer. My family and I own and operate a 500 cow dairy and farm 1200 acres for the main purpose of feeding our dairy herd and replacements. We are a third generation dairy farm. I appreciate the opportunity to testify today on behalf of not only myself , but also the Lehigh County Farm Bureau in support of Fish Farm and Ranch Risk Management (FFARM) Account legislation. I and my fellow farmers have lobbied aggressively the past several years to have FFARM Account legislation passed by Congress to no avail. In the meantime dairy farmers, including myself, have seen huge swings in the price we receive for our milk.

In the past several years I have received prices as low as $12.20 per hundredweight to prices as high as $18.80 per hundredweight. While costs of production are somewhat more predictable, uncontrollable factors such as weather conditions can have a tremendous impact on costs. Developing and maintaining a solid business plan to mange the fluctuations of the market price and costs of production is difficult to say the least.

The prices that farmers and ranchers receive for their commodities are determined by forces they can't control, commodity markets and the weather. Farmers and ranchers do not know from one year to the next if their businesses will earn a profit, break even, or operate in the red. Few other industries must face such a challenge year after year after year. Risk management tools are badly needed in production agriculture. Congress seemingly recognized this fact when the 1996 Farm Bill was passed to allow farmers to meet the market. Promises were made by Congress at that time to provide more risk management tools for farmers because of their increased market risks. FFARM Accounts seem like a logical cornerstone to helping farmers manage volatile markets, and yet we still are waiting for passage of this legislation to help fulfill promises made.

It is probably difficult for people who have never operated a business to understand how important of a tool it would be for farmers to have the ability to save a portion of their earnings tax free during good years, for use when the rainy days come. Ironically, for farmers we are probably not so much saving for the rainy days as we are the hot dry sunny ones. People who own a business understand that when you show some good returns for your labor at the end of the year you have two choices to make. One you can pay a lot of income tax and watch your hard earned money go to Washington D.C., or you can reinvest that money in your business to avoid sending some of that money to D.C. I doubt it will come as a surprise to you that most prefer to spend the money on their business. Either way the money is gone, and when the lean times come there is no available cash to make up for shortfalls farmers experience. This can be a vicious cycle that drives farmers deeper and deeper in debt.

Passage of FFARM Accounts would provide farmers the opportunity to change their business practices in a way that we can better assist ourselves in planning for the inevitable cyclical nature of our business. This should help lessen the need for government assistance when market disasters occur.

My position as president of the Lehigh County Farm Bureau gives me responsibility for the grassroots process that our organization uses to develop its policy positions. I listen to hours of debate on farm policy in the county and state and I can't think of another idea that has such enthusiastic support as Farm and Ranch Risk Management Accounts. Farmers like the idea that the government wants to make it easier for them save for a "rainy day."

I ask each and every member of the Small Business Committee to get behind FFARRM accounts. Speak to your fellow representatives about the wisdom of doing something to improve the farm economy long-term. The future of production agriculture is dependent on new and innovative tools, like FFARRM accounts, to help farmers and ranchers manage their financial risks.

August 7, 2001

We are here this morning to discuss Farm and Ranch Management (FARRM) Accounts. There are very few occupations, if any, that are more uncertain then farming. As you can see from the two Christmas tree seedlings that I brought along, sometimes you make it and sometimes you do not.

As a farm owner and operator of a general crop, hay and Christmas tree farm in Lehigh County, I try to adhere to the best management practices according to modern scientific technology as well as add many years of on the job training. As you can see, the results still are not completely satisfactory.

For example, experience dictates that Christmas tree seedlings should be planted in early spring when conditions are normally cool and damp. But as we all know, this spring conditions were hot and dry and many tree seedlings just did not survive. A similar problem occurred in the hay fields. The new alfalfa seedlings did not survive this past spring and must be replanted this fall. One year's production was lost. Time and money must be put forth to replant these crops along with the loss of potential income of the delayed replanting.

This might not be much of a problem if farming was a high income, high reserve type of occupation. But this is not the case. In a time of depressed commodity prices and high input costs, farmers are barely hanging on financially. In general, there are no reserves available and local taxes never fail to come due. One can borrow only so much against the farm real estate, which then costs extra in interest expense.

Farm and Ranch Risk Management Accounts would allow us to take reserve monies from a good production or price year and let it earn interest in a non-taxable account for up to five years. This money could then be used as assistance through the devastating conditions Mother Nature heaps upon us or the low market prices of which we have no control.

A strong agricultural industry nationwide means a strong and healthy country. I urge the U.S. Congress to make FARRM Accounts available for use in the very near future.

Arland Schantz
Evergreen Farm

Testimony of Cheryl Bennecoff
Regarding FFARRM Accounts
On Behalf of Pennsylvania Farm Bureau
Before the House Small Business Subcommittee
On Tax, Finance, and Exports
August 9, 2001

Thank you for inviting me to speak at today's hearing. My statement is made on behalf of not only myself, but the over 28,000 rural and farm family members of the Pennsylvania Farm Bureau. My name is Cheryl Bennecoff and we run a Farm Family operation that has been in the family for four generations, and 100 years. We farrow to finish 80 sows, specializing in purebreds. We farm 250 acres, raising corn, soybeans, wheat, barley, and oats.

Farm Bureau is most appreciative of legislation passed by Congress in recent years to provide immediate relief to farmers and ranchers who have suffered from weather and market disasters. If similar emergencies are to be minimized in the future, farmers and ranchers must have new and innovative ways to deal with uncertain incomes caused by weather and markets. Congress must act to give producers the risk management tools they need to manage financial jeopardy caused by unpredictable weather and markets.

The pig market provides no guarantees. It is always changing, never knowing what price we will receive. Two years ago, when times where bad with the drought, we also experienced low fat pig prices. They were down to 15 cents per pound. Prices increased to 38 to 39 cents the following year. To break even, we need 42 to 43 cents, and to make anything extra 50 cents. Prices have continued to improve since then. Right now they stand around 49.5 cents per pound. I would like to believe prices will continue to improve and remain at profitable levels in the future. However, history has taught us all to well that will likely not be the case.

Fish, Farm and Ranch Risk Management Accounts (FFARRM accounts) are exactly the kind of risk management tool that farmers and ranchers are looking for. Using these accounts, producers will be encouraged to save up to 20 percent of their net farm income in higher income years by the benefit of deferring taxes on the income until the funds are withdrawn. The program is targeted at real farmers, contains guarantees that the funds will not be at risk, and prevents abuse by limiting how long savings could be in an account for up to five years. FFARRM accounts are simple and that's why they are so appealing to farmers. Farmers would decide when to save rather than spend and when to withdraw and pay taxes on the money.

Legislation to create FFARRM accounts, H.R. 662, has been introduced by Reps. Kenny Hulshof and Karen Thurman. These are two smart representatives because they've written their bill so that producers of all commodities, from all sizes of operations, who come from all parts of the country, can take advantage of FFARRM accounts. That's the reason many agricultural organizations and over 100 congressional representatives support the bill.

We know that members of the Small Business Committee understand the need for FFARRM accounts, but I must tell you that many of my fellow farmers wonder why it's taking Congress so long to pass them into law. When agriculture agreed to support the phase-out of farm programs in 1996, it was with the full expectation that Congress would make good on its promises to reduce regulations, expand markets and provide risk management tools.

I've been told that passage of H.R. 662 would "cost" $500 million over five years and $900 million over 10 years. Rather than talking about cost, I think we should all be talking about the benefits of the legislation. It would be better to say that FFARRM accounts will provide an important safety net for farmers and ranchers worth just short of a billion dollars.

Many growers of perishable commodities along with the producers of livestock, poultry and other nonprogram crops have never had the benefits of a farm program safety net. What all farmers hope for is that the good years will out number the bad ones. Believing that better times are coming, farmers and ranchers get through tough times by spending their retirement savings, borrowing money, refinancing debt, putting off capital improvements and lowering their standard of living. All of these activities damage the financial health of a farm or ranch and the well being of the family operating the business. We rely on our management skills, marketing ability and a little luck with the weather to make our businesses turn a profit. We are always looking for new and innovative risk management tools to help us manage our businesses successfully.

Pennsylvania Farm Bureau asks each of you for your support for FFARRM accounts. We urge Congress to pass them into law as soon as possible. Their creation will give farmers and ranchers a meaningful incentive to save for a rainy day and provide a very valuable tool for managing financial risk.

Thank you for your time and consideration of this most important issue to our Pennsylvania farmers.