Approved 02/12/87
Date

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT.

The meeting was called to order by Phil Kline at
Chairperson

3:30 a.m./p.m. on Tuesday, February 3, 1987 in room 514-S of the Capitol.

All members were present except: Rep. Foster (Excused)

Committee staff present:
Lynn Holt, Research
Raney Gilliland, Research
Jim Wilson, Revisor
Molly Mulloy, Committee Secretary

Conferees appearing before the committee:
Bill Fuller, Kansas Farm Bureau
Harland Priddle, Secretary of Commerce
Leo Schwartz, Kansas Pork Producers
Don Sailors, Kansas Pork Producers
Fred Bentley, Kansas Rural Center
Rep. Bruce Larkin
Jasper DeVore
Ivan Wyatt, Kansas Farmers Union
Jim Nelson, pork producer
Mary Harper
Joe Vogelsburg, hog farmer
David Biesenthal
Jim Dobbins, pork producer
Frank McCollum, pork producer
Chris Walter, National Farmers Organization
Fr. John Stites, Catholic Rural Life
Tim Rose, Kansas Pork Producers

Chairman Kline called the meeting to order and opened the Hearing on H.B. 2076.

Bill Fuller, Kansas Farm Bureau, spoke in support of the bill, stating that the majority of his organization supported changes in the law that will enhance economic opportunity for farm families and for growth and expansion of grain and livestock operations. He cautioned that this was true only if certain assurances were provided (See Attachment 1) and noted that many of his group oppose IRBs and property tax abatements for corporate farms.

Secretary of Commerce Harland Priddle was the second proponent. He noted that changes in legislation would attract new industries and create new jobs (See Attachment 2). He said he hoped H.B. 2076 would open up the possibility of a Kansas Common Market so that hogs would not be shipped outside the state if they could be slaughtered inside the state.

Leo Schwartz, Kansas Pork Producers, read his testimony in opposition to the bill (Attachment 3). He said that his organization represents the majority of pork producers in the state and they are concerned that corporate farming will hurt family farmers. He also expressed concern that small pork producers had very little input into H.B. 2076 as it was being drafted.

Don Sailors, also of Kansas Pork Producers, opposed the bill, stating that increasing production numbers does not create a climate for higher prices. He stated that large corporate hog units will deal with how many head can be produced, regardless of the price received. He also argued against IRBs and other tax incentives.

Fred Bentley of the Kansas Rural Center opposed the bill. He said although cattle prices are higher in southwest Kansas, the price has dropped overall since the 1970s at the expense of family farmers in the rest of the state. He felt that promoting corporate hog production will harm family farmers and rural communities by shifting production from small producers to corporate feeders. He asked the committee to review the statistical information at the back of his handout (Attachment 4).

Rep. Bruce Larkin testified against the bill, saying his district has one of the highest concentrations of hogs and family farms in the state. He opposes the bill because of the unfair competitive advantages which corporate hog operators receive under the federal tax system, and the sociological and environmental impacts of concentration of ownership and economic damage to the state. He distributed copies of his testimony and supporting documentation (Attachment 5).

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT,

room 514-S, Statehouse, at 3:30 a.m./p.m. on Tuesday, February 3, 1987.

Jasper Devore, farmer from Arkansas City, testified in favor of H.B. 2076. He said better grain markets should be one of the priorities in Kansas and you do that by feeding livestock produced in Kansas. He mentioned that Kansas and Nebraska are the only states with laws against corporate farm production. Since Kansas has more grain storage than any other state, he suggested that instead of storing it, it should be used.

Ivan Wyatt, Kansas Farmers Union, opposed the bill because he thinks consumers will not benefit from corporate hog farming and it will crowd out the independent producers. He said instead of inducing corporate producers to move here, we should instead develop a market for the family farm producers already here (see Attachment 6).

Jim Nelson, Windom KS, opposed the bill also. He said if large corporatons are allowed into the state, pork producers will be displaced. He estimated that for every 1000 sow operation brought into the state, 30 producers with average sized operations will be displaced. He distributed a handout (Attachment 7) and said we should leave the law as is.

Mary Harper spoke against the bill, saying that she was concerned about the quality of life of the individual farmers. She said "bigger isn't better" and called attention to the testimony and statistics on her handout (Attachment 8).

Joe Vogelsburg, a hog farmer, opposed the bill. He testified that the larger a hog facility is, the less profit per hog needed. The corporate hog facility will put him and hundreds like him out of business. He said that perserving the family farm is economic development, but loosening the corporate farm law is not. (Attachment 9)

David Biesenthal, Wheaton, KS, testified against the bill. He fears that corporations will control the market and squeeze out the small farmers. He does not believe that the corporate farm law will create more jobs. (Attachment 10).

Jim Dobbins, operator of a grain and livestock farm, said a further increase in hog production in the United States will only be a depressant to the pork market.

Frank McCollum said he was against the farming corporation but thought a larger problem was with the markets. He said he can complete with corporations but there has to be a market.

Chris Walker of the National Farmers Organization opposes the bill, agreeing with previously quoted testimony. He said if corporations take over farmland with their hired hands and large equipment, a reduction results not only in the number of farmers but in small businesses too.

Father John Stites, director of Catholic Rural Life of the Archdiocese of Kansas City stated that he was against the bill. He asked the committee to read his written testimony (Attachment 11) since the Hearing was running over schedule.

Tim Rose, president of the Kansas Pork Producers, was the final conferee. He is against the bill, stating that his two primary concerns were the IRBs and tax incentives. He believes that corporate farms will displace small pork producers.

Chairman Kline thanked the conferees and many guests for their courtesies to the Committee and thanked Committee members for staying late to hear all of the testimony.

The meeting adjourned at 5:55pm. The next meeting of the Committee in Wednesday, February 4, 1987.

Date: 2/3 UEST REGISTE

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Steve Suther (editor)	Grass & Grain	Box 1009 Manhattan 66502
Wilfred Bergkamp	Farming Farmers Union	Colwich Kansas
Aloys P. Betzen	Farming Farmers Union	Colwich Kansas
Frank McCollam	Farming	Fall River, Ks
Bill R. Fuller	Kansas Farm Bureau	Manhattan
Ivan W. Wyatt	Kansas Farmers Union	McPherson
Chris Walker	Kansas NFO	Mayetta Ks
Walter Myers	Populist Party	R.2 Baldwin, Ks 66006
John O. Miller	AARP	5230 W. 24th St. Topeka
Fred Bentley	Kansas Rural Center	Whiting
Anna C. Bergkamp	Farmer's Union	Colwich, Ks.
Mary Ann Betzen	Farmers Union	Colwich Ks.
Mike Jensen	Ks Pork Producers Council	Manhattan
Tim Rose	Pres. Ks Pork Producers Council	Lyons, Ks
Norman Harper		Healy
Mary Harper	farmer	Healy
Jeri Albright	KPPC	Delia
Russell Havenkamp	farmer	Baileyville Ks

Date: 2/3

GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Richard J Schmitz	Farmer	Baileyville Ks
Mrs Raymond Schmitz		Baileyville, Ks Box 63
Raymond J Schmitz	Farmer	" " "
John Hulsing	Farmer	Baileyville Ks.
James Dobbins	I + Hog producer	Goff, Ks.
Chip Wheelen	McGill & Associates	Topeka
[illegible]	Farmer + Pork Prod	Bern
Dale Kuehner	Farmer + Pork producer	Washington, KS
[illegible] Henderson	Farmer + Pork Producer	Palmer
Raymond Fowler	Farmers Union	Emporia Ks
Ray Burns	Ks Board of Agriculture	
David Biesenthal	individual hog farmer	Wheaton, Ks
Gerald W Zimmerman	KPPC	Concordia, Kansas
Earl Cordell	KPPC	Soldier Kansas
Carole Mead		Pawnee Rock
John M Stitz	Catholic Rural Life Office	Box 2329 KC KS. 66110
[illegible]	hog producer	Rt 3 Ark. City
Eldon R Fastrup	KS State Board of Ag	Topeka
Ken Boughton	Ks Bd of Agri	Topeka

Date: 2/3

GUEST REGISTER

HOUSE

Committee on Economic Development

NAME	ORGANIZATION	ADDRESS
Barbara Rezac	Farmer - Pork Producer	Onaga
Alan Steppat	Pete McGill + Assoc.	Topeka
Darlene Stearns	Consultation of Churches	Topeka

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Kansas Farm Bureau

PUBLIC POLICY STATEMENT

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

RE: H.B. 2076 - Relating to the Use of Agricultural Land by Corporations

February 2, 1987
Topeka, Kansas

Presented by:
Bill R. Fuller, Assistant Director
Public Affairs Division
Kansas Farm Bureau

Mr. Chairman and Members of the Committee:

My name is Bill Fuller. I am the Assistant Director of Public Affairs for Kansas Farm Bureau. I am speaking on behalf of the farmers and ranchers who are members of the 105 county Farm Bureaus. We appreciate this opportunity to express our views on H.B. 2076.

The Corporate Farm Act rewritten by the 1981 Kansas Legislature prohibited the corporate ownership of agricultural land ... then allowed for 13 limited exemptions. The "#8 exemption," which exists today, permits corporate ownership of feedlots and allows unlimited meat production. H.B. 2076 would authorize a corporation to acquire limited land to construct specific livestock breeding operations ... "swine confinement facilities" and "poultry confinement facilities."

After extensive study by the membership and debate by the voting delegates at the 68th Annual Meeting of Kansas Farm Bureau, the following policy was established:

Corporate Farm Law

Kansas needs to be responsive and innovative in capital formation for agriculture and economic development in agriculture. We support changes in the Kansas Corporate Farm Law that will enhance economic opportunities for farm families, and for growth and expansion of grain and livestock operations.

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Kansas Farm Bureau has been actively involved with the extensive economic development initiatives established by this Legislature to assure agriculture, Kansas' basic and largest industry, gets its share of the action. The farmers and ranchers who are members of Farm Bureau across Kansas are willing to accept the recommendations of the Economic Development Task Force on Agriculture and the Legislative Commission on Kansas Economic Development concerning the corporate farming law if certain assurances and safeguards are provided:

1. Acquisition of land by corporations must be limited to the land required to only construct and handle the waste from the swine and poultry confinement facilities ... NOT allow corporations to produce grain or other crops.

2. Legislation must make it abundantly clear that no tax structure in Kansas will give any advantage to corporations not allowed any farm family.

For example, we insist any corporate agricultural production plant must be prohibited from receiving property tax abatement under the Constitutional Amendment approved by the voters in the August primary election. The Amendment authorizes cities and counties to grant property tax exemptions for economic development purposes ... manufacturing, research and development, and warehousing. We believe there needs to be an amendment to prevent any unfairness. In addition, corporate operations must be prohibited from using Industrial Revenue Bonds (IRB's) in construction of agricultural production facilities.

The farmers and ranchers of Farm Bureau insist there must be a "level playing field" for all producers ... individuals, partnerships, family farm corporations and any other corporations. If all producers are guaranteed an equal footing in the areas of ... property taxes, income taxes and interest rates ... the majority of our members can support H.B. 2076. In fact, we can see some possible advantage when you consider the increased possibility of attracting slaughtering and processing facilities to Kansas and the possibility of improved markets for some of our grain surpluses in some locations.

Thank you for allowing us to express the views of the farmers and ranchers of Farm Bureau on H.B. 2076. I will attempt to respond to any questions you may have.

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PRESENTATION TO

HOUSE ECONOMIC DEVELOPMENT COMMITTEE

BY

HARLAND E. PRIDDLE

SECRETARY OF COMMERCE

February 2, 1987

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As we begin today I would like to quote from the Governor's legislative message addressing areas of the Agricultural Task Force, "I strongly agree with the Commission's major recommendation that we focus our efforts on developing value added processing industry in Kansas. For years we have been satisfied with our production of grains and livestock without giving proper emphasis to the need to add value before these products leave our state. The beef industry in their commercial feedlot and processing plants in southwest Kansas illustrates the economic impact of a value added industry. I will work with you to find ways to use the same approach for other agricultural products such as pork and poultry to bolster economic growth in other regions of the state."

As you address this change in the Corporate Farm Law, the addition and creation of jobs is a possibility through the establishment and expansion of additional pork production and processing facilities as well as poultry facilities in the same area. In reviewing briefly the cattle and the pork production statistics, we saw some interesting things happen during the last 35 years. In 1950, we produced 1.25 billion pounds of beef and we slaughtered less than that, 800 million pounds. In 1985, we produced only 2.7 billion or about twice what we did in 1950 but we slaughtered 7 billion pounds of beef in this state. Last year Kansas was number 1 in the entire United States in beef slaughter. In the pork industry we have seen a somewhat different happening as it relates to pork production. In 1950, we produced 450 million pounds and we slaughtered 800 million pounds. At that time we were bringing in hogs from other states for slaughter. In 1985, we produced 650 million pounds, just a little more, but we only slaughtered 480 million pounds because we only have one slaughter facility in operation as of this time.

In a recent letter from the Kansas Poultry Association, I noted similar statistics in their industry. This industry has declined in Kansas over the past 25 years. At the current time Kansas has approximately 1.8 million egg production chickens on farms, raises approximately 100,000 market turkeys, and raises no commercial broiler chickens. However in 1960, Kansas had 6.6 million layers on farms, raised 1.9 million turkeys and 865,000 broilers. During this period there have been large increases in poultry production in neighboring states, such as Arkansas, Missouri, and Nebraska. Quoting from their letter,"obviously changes need to be made to attract poultry industries to the state."

In summary I believe the legislation you are addressing today indicates a change in concept and would possibly provide an incentive to attract new industries and create jobs in the rural areas of Kansas. As we look to the future, our rural communities have the biggest challenge of our lifetime and possibly in the history of the state. Anything we can do on the part of lending assistance to bolstering this economy should be reviewed with a very positive attitude.

Mr. Chairman, I stand for any questions you might have.

Leo Schwartz
R.R. 2
Washington, Kansas 66968

Ladies and Gentlemen of the House Economic Development Committee:

I am a farmer and pork producer from Washington, Kansas in Washington Co. and also the immediate past president of the Kansas Pork Producers. This organization represents the majority of pork producers in the State of Kansas or the official voice of the Pork Industry in Kansas.

Washington County is one of the top producing counties in the state with all farmer owned hog operations. Hogs, grain, government programs, teacher salaries, and social security checks are the life line for business in Washington County as there isn't any manufacturing of saleable products. In the 50's and 60's, Washington County was one of the top cattle feeding counties in the state. With the advent of feedlots around the state this has changed. The feedlot operations left Washington County and all cattle are fed at commercial feedlots out of county. Only one bonified farmer-feedlot remains that finishes cattle. This income stayed in Kansas but was lost to Washington Co. forever.

People, this I am fearful will happen also to the Pork Industry.

On July 31, 1986, a meeting was called by the marketing division of the State Board of Ag. to discuss the potential for expansion of the swine industry in Kansas. The representatives from the Board of Ag. (Don Jaccka), the governors office (Carol Hedges), and Tom Sloan from the office of Senate President couldn't understand why the number of livestock was down. I stated the No. 1 reason - - profitability. A person needs profit to stay in business.

During the 1980's, hog production has been relatively stable, however the number of breeding stock has declined almost 40 percent. Some of this has come about by the changing structure of the hog industry and management practices. You shouldn't let the high 1986 profit margin color your judgement. Except for 1982 and 1986, profit margins have been non-existent during the 80's.

Two good years out of seven isn't a very good average. Not many of you could continue your business with a profit two out of seven years. I dare say your bankers would have you doing otherwise.

At the meeting in July, a representative who is President of a Corporate Swine facility testified about the this type of operation in the State of Kansas and his beliefs as to the benefits of this type of operation to Kansas at the Kansas Marketing Task Force meeting. Not one family farmer producer was asked. Also not once, did anyone on this task force contact the KPPC for further input from the family-type farm pork producer which is my livelyhoood.

All plans and ground work to the corporate farm law have been without the input of the family owned business such as mine. Everyone of you are making a decision that will effect my life, my sons, my fellow pork producers and neighbors, if you change the present law without our input.

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Leo Schwartz

R.R. 2

Washington, Kansas 66968

I dare say, not one of you would stand for this type of action if it concerned your individual jobs and livelihood.

Therefore, this portion or package of your cure all for Kansas Economy should be taken out for farther study before any decisions that effect the fate of family owned hog farms such as this change in the corporate law.

If the poultry industry wants the law changed, open it up for them. I'm sure Tyson and Co. will be here shortly to raid Kansas of more than they will ever give back to the state and the people of Kansas. Tyson Foods, the world's largest poultry producer, has paid virtually no income tax in the past five years. Primarily because of a tax code provision intended to benefit family farmers. Annual reports on file with the securities and exchange commission show Tyson has averaged a zero effective tax rate during the past five years and a negative tax liability for some years because of credits and deductions.

Friends, this is only one of many of the unfair advantages we as family farms are subject to. When we as individual producers are assured that investment credit is totally dead and cannot be reinstated at a politicians whim or the special IRB's cannot be used in agriculture or special tax breaks be given, we may feel a little safer.

At present, there are too many unanswered questions about the new tax codes and the constitutionality of many laws that are passed and the legal loop holes that they contain.

As of last summer, Washington County could have received 1½ million dollars in government grants if the county commissioners matched this with bonds. This money could only be used by outside people not local people already raising hogs. A group from Denver, wanted to put in a 20,000 head feeding floor. They were going to feed corn, all which would have been shipped in. The feeder pigs were going to be shipped in. They were going to employ two or three people all for 3 million dollars.

You have been told that we can attract a packing plant or plants by increasing the numbers of hogs. We came close when Oscar Mayer bought 600 plus acres at Wamego to build a plant several years ago when we as a state did have higher numbers of hogs. Now it is cheaper for a company to ship livestock to their plants and double shift than to build new plants. The theory that more hogs in Kansas will not get Kansas a plant with the economic picture as it presently is.

Legislators, I think it is high time you help and take a look at the survivors of these tough times who live and operate in the state of Kansas instead of looking for large corporate companies and inviting them to plunder our state of its tax monies. The individual producer will return more tax monies than any large corporation.

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Bently

THE KANSAS RURAL CENTER, INC.
304 Pratt Street
WHITING, KANSAS 66552
Phone: (913) 873-3431

Testimony On H 2076

The Kansas Rural Center is a private, non-profit organization which has provided research and public education on agricultural and natural resource policy issues for the past seven years. As an advocate for the family farm system of agriculture, we are vitally interested in economic development issues and strategies which attempt to improve the rural economy. We have studied corporate farming in Kansas and the changes that H 2076 would make to the existing corporate farm law in Kansas. We have concluded that the changes sought in H 2076 are not likely to produce the kind of economic development that will be beneficial to family farmers and rural communities and may be harmful to the long term interests of our state.

The issue at hand is whether or not loosening the corporate farming restrictions will stimulate greater hog and poultry production and processing in Kansas and what effect this will have on family farmers and rural communities.

The cattle industry in southwest Kansas is often cited as an example of economic development that should be applied to hogs and poultry. Proponents cite higher cattle prices, increased production, and the location of beef processing plants in southwest Kansas to demonstrate the desirability of this economic development model. The assumption is that this is possible because of the corporate exemptions for cattle feeders. All we have to do is put hogs and poultry on the same footing and economic development will occur. We disagree.

Southwest Kansas has become a leader in cattle production and beef processing because of its climate and location in the middle of the Prairie/Plains cattle feeding region. (See figure 2). Actually, cattle prices have declined overall in the 1980's

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by \$5.50 cwt over 1970's prices, and the cattle/calf numbers in Kansas have declined by an average of 6.7 percent from 1970's numbers. While southwest Kansas may have benefited with slightly higher prices, it has clearly been at the expense of family farmers in the rest of the state.

By the same token, despite wishful thinking, it is unlikely that the amendments sought in H 2076 will materially affect hog production/processing and economic development. Our state simply does not have the same climatic and geographic advantages for hog production as it does with cattle. (See figure 3). Hog production is heavily centered in Iowa. Processors are most likely to locate in the center of where production is located and this explains why large hog processors are not located in Kansas. It has nothing to do with the corporate farming restrictions.

Promoting corporate hog production in Kansas will not give us an advantage over other regions in hog production, but it will harm family farmers, rural communities and the state of Kansas by shifting hog production from small and medium sized producers to corporate feeders. Our greatest concern with this bill is that it will lead to greater concentration of corporate hog production and ownership of land and resources.

We urge you to reject this corporate model of agricultural development and avoid the smoke stack chasing syndrome that is so wisely cautioned against in the Redwood-Crider Report. That report stated that most new jobs are created by new businesses and expanding modest sized businesses. We believe the same sense should be applied to agriculture. State economic development in agriculture should be oriented towards small and medium sized family farms and the rural communities that have been the foundation of our Kansas heritage and culture. Economic development should also mean human development!

H 2076 represents a false promise to the people of Kansas and we urge that you reject it!

ARGUMENTS FOR AND AGAINST HB 2076 (CORPORATE FARM LAW)
Prepared by the KANSAS RURAL CENTER
February, 1987

FOR:

Kansas hog prices are $1 lower than the national average. Hog numbers in Kansas are significantly down bottoming at the lowest levels in almost twenty years. Since 1972 Kansas slaughter capacity has declined 66% due in part to declining hog numbers. 69% of butcher hogs go out of Kansas for slaughter due either to lack of slaughter capacity or higher prices elsewhere. Therefore other states are processing our hogs and receiving value added benefits. Increasing our productive capacity by permitting completely open laws on corporate hog production will develop the high volume needed to attract processors. Nearby processors will encourage higher hog prices due to reduction in transportation costs. The southwestern beef industry is used as an comparative example for the potential benefits of this kind of agricultural development. Dodge City steers draw a $1.80/cwt. advantage over neighboring states due to close access of processors.

AGAINST:

The higher southwest Kansas beef cattle price is not primarily due to a feedlot exemption in our corporate farm law. Southwest Kansas is a natural geographical place for beef processing. It is a central point for the heavy cattle production that arches from Texas to Nebraska. Corporate feedlot exemptions are not necessary to produce the number of cattle to attract processors. Kansas has had the cattle productive capacity well before the feedlot exemption in 1981. Those fed-cattle numbers have remained relatively steady while cattle and calf numbers have registered a 6.7% decline in the 1980's. Nebraska provides an example in which a much more restrictive corporate feedlot law has resulted in consistent increases in its fed cattle numbers. Kansas Agricultural Statistics show that Nebraska led all seven major cattle producing states with the largest increase of November placements from the previous year (114%). In December Nebraska was the only state of these seven major states to register an increase of fed cattle numbers over the previous year. Nebraska is proving that it doesn't need corporate feedlot exemptions to lead the nation in fed cattle expansion.

Bringing in processors doesn't ensure higher prices. Since the turn of the decade we have witnessed corporate expansion in cattle feedlots and the development of beef processors. Yet the average statewide prices for beef cattle have dropped. (Average price '79-81 was $64.80/cwt.; '82-'85 was $59.30/cwt.) The competition-stifling concentration of packers across the major livestock producing states have actually lowered prices. A Clemson University study found that each one percent decline in buyer concentration would increase hog prices between $0.02 - $0.18/cwt. A 1986 University of Wisconsin study, THE IMPACT OF PACKER BUYER CONCENTRATION ON LIVE CATTLE PRICES, concludes that in regions including Kansas "public policies aimed at reducing the levels of concentration appear to be appropriate ... competitive conditions can have an important influence on returns received by U. S. cattle feeders." This research estimated, in the regions including Kansas, during the years 1976-1980, a reduction of concentration of the top four packers to a percentage of 40% of the total slaughter market would raise the average price of cattle from $0.24 - $0.47/cwt. The report also concludes from 30 similar previous studies that a convincing consistency is emerging confirming that packer concentration is significantly related to prices.

Comparing the beef cattle industry to the hog industry is comparing apples to oranges. While beef cattle feeding naturally gravitates towards the dryer climate of the southwest, hog production is concentrated in the cooler, corn country of Iowa and the North Central states. (See enclosed maps.) Naturally the majority of pork processors are going to locate there. A dramatic shift of production here in Kansas is unrealistic. Even if it were to happen, a dominance of large production units isn't needed to provide sufficient hog numbers. Those productive North Central states have half the percentage of large hog farms, annual sales over 5,000 head, that Kansas does yet they have the productive capacity we dream of. Obviously small and medium-sized units can produce the hogs just as Nebraska shows the medium-size farmer can produce the cattle.

Finally, there is no apparent corporate restriction on the production of hogs for slaughter purposes in the current law since a swine confinement facility is considered to be a feedlot. Apparently larger coporations are restricted in the raising of swine for the sale of breeding stock. However, how would such breeding-stock, corporate entities be producing the extra stock to draw in big processing units?

FOR:

A corporate exemption for swine confinement facilities will bring in needed outside captital to develop our state's swine productive capcacity. Many jobs will be created in the local community for construction of new facilities and labor on the farm. Before a 1984 House Judiciary Committee a representative from the Seaboard Company stated interests in building a large swine breeding facility in a joint effort with a British firm. An estimated 35 million dollars would be spent over a developmental time of ten years. Over a hundred people would be employed. KSU graduates would provide good candidates for employment in managmement roles. This would certainly help to keep our well educated graduates in our state.

AGAINST:

True, some new jobs would be created. But these would come at the expense of existing jobs of smaller family farmers.

DeKalb Swine Breeders, Inc. is a wholly owned subsidiary of DeKalb AgResearch, Inc. It's facilities lie in Seward and Meade counties near Plains, Kansas. Roy Poage, president, testified before a House Judiciary Committee in March, 1984 stating that his coporate hog operation produced an estimated 150,000 hogs per year. That corporation was authorized in September, 1973. A comparison between the pig crop numbers reported by Kansas

Crop and Livestock Reporting Service shows that in the late 70's and through the 80's pig crop numbers in Seward and Meade counties have dramatically risen while hog production in the remaining 12 counties withered away. In 1984 the DeKalb hog farm is estimated to have cornered 93% of the pig crop in that two-county area and 68% of the whole southwest region of Kansas. DeKalb's presence has had a striking relationship with the dramatic decline of the rest of the southwest region's pork industry. The table below shows the changes in pig crop numbers mentioned above. (Figures were used from annual reports of the Kansas Crop and Livestock Reportins Service.)

Year	% Pig Crop of SW District in Seward and Meade	Total Pig Crop in SW Dist.
1977	24%	232,000
1978	39%	200,000
1979	51%	222,000
1980	55%	232,000
1981	60%	263,600
1982	69%	229,300
1983	73%	239,100
1984	73%	220,300
1985	78%	234,600

From the above table you can conclude that the total hog numbers in the southwest district remained stable but producers in neighboring counties were squeezed out.

It is true also that a corporation can build a new large swine confinement facility and bring new money into the local community. However that economic stimulus can be very short lived as farmers are displaced and the new construction is completed. Actually local communities will suffer in the longer term. Sociological studies overwhelmingly agree that it is the medium-sized farmer that contributes far more to the health of the local community in terms of economic stimulation, civic involvement and the creation of jobs. Cornelia and Jan Flora conclude in one of their studies "retention of medium-sized farms lead to greater community vitality than the growth of very large farms in the small grain and livestock areas of the western half of the United States."

Dr. Walter Goldschmidt in a classic study of two California towns that were alike in all the causative factors except the scale of surrounding farm operations concluded that by every measure he could devise, the quality of Dinuba (the smaller farming community) was superior to that of Arvin (the larger farming community). Dinuba prospered with a 20% larger population, a higher average income and over twice the number of farmers and independently employed businessmen including white collared workers. Dinuba also had more paved streets, better public services, more parks, twice the number of civic organizations and 77% more separate business establishments. The retail trade in Dinuba was 61% greater and local expenditures for household goods was three times greater than the larger farming community. A follow-up study was performed thirty years later in 1977 and reached similar and more alarming conclusions. The larger farming community had become more dependent on outside funding partly due to an eroded tax base.

The Macrosocial Accounting Project -- Community Information Bank at the University of California at Davis focused its sociological research on 85 diverse towns in the Central Valley region over an eight year period. E. G. Dolber-Smith concludes that there was a strong, statistically significant, negative relationship between the size of agricultural operations and poverty. He writes "the faster farm sizes increase, the faster the rates of poverty increase." Dean MacCannell, also of the University of California at Davis, writes "there is mounting evidence that current policies designed to promote agriculture, insofar as they lead to the expansion of existing operations and greater concentration, in actual practice, also promote the deterioriation of rural community life ... Everyone who has done careful research on farm size, residency of agricultural land owners and social conditions in the rural community finds the same relationship: as farm size and absentee ownership increases, social conditions in the local community deteriorate."

It is estimated that for every six or seven farmers that go out of business, one local business also goes under. Also farm corporations owned by foreign corporations allow earned profits to leave the community to be enjoyed by the absentee owners. The future of such a corporation within the community hangs upon the possibility that a more attractive labor or economic situation can be found elsewhere.

FOR:

The dominant trends are towards larger farms with newer technology, more specialization and more efficiency. It is these larger units that are more efficient and more productive. US Hog Industry, 1981, Arsdall and Nelson from USDA's Economic Research Service, studying the North Central and Southeast regions of the United States, outline some of the following aspects of economy of size for hog producers: Litter sizes were consistently below average on the smallest farms. The large volume-producers achieved superior performance in pig production through higher production per litter and earlier weaning. Larger enterprises used feeds more efficiently. Larger operations have annual sales twice their inventory while smaller producers had sales the same as their inventory. Cooperatives, corporations, and family corporations accounted for less than 5% of all the businesses involved in hog production. Most of the corporations had no business interests other than farming. "The overall economics of increasingly larger and more complex operations that produce hogs will force a higher proportion of production of hogs and pigs under such business organizations in the future." To legislate against such trends would be unwise and counterproductive.

AGAINST:

Large-scale hog operations can achieve some efficiencies due to size. However some of those comparisons look only at a narrow, qualified perspective. For example in the same study, US Hog Industry, there is acknowledgment that in the case of feed efficiency there is as much variation among producers within a certain size group as there is difference between groups. This suggests that individual management irrespective of size is more of a

FOR:

HB 2076 will encourage greater hog production and thereby consume more of our Kansas grain. That adds use value to our grain products and raises local grain prices due to the increased demand.

AGAINST:

Medium and small-sized producers have proved they can produce the numbers of hogs needed. So why not distribute the benefits of increased grain prices to the farmer that will contribute more to the local economy. A 1967 study of 190,000 farm families using supervised credit of the FHA showed they grossed $3.2 billion and spent all of it locally. The agency's administrator said before a subcommittee "the managers of largescale corporation farms deal directly with the wholesalers or even the manufacturers of the products they need ... In an area where corporation farms dominate there is no place for the village farm supply dealer, the co-op grain elevator, the small banker. You simply cannot have corporation farms and small business enterprises cheek and jowl. On the other hand, where family farms thrive, small businesses flourish, too."

FOR:

Kansas is a poultry-deficit area. We ship many of our turkeys outside the state for processing. We need entrepreneurs and investors that provide the capital and shove to get this kind of production growth. Kansas would greatly benefit from increased production that would attract more in state processing. The poultry industry is already a very corporately concentrated industry. No chance is available for a medium-sized producer to market his own products. Thereby reducing the entrance for new corporations to enter the current poultry market prevents the contracting farmer from receiving a little more favorable competition for his services.

AGAINST:

There seems to be some legitimacy to this argument. The poultry industry is highly concentrated and vertically integrated. However large poultry corporations already own agricultural land in Kansas. So how will such a proposed change effect the current dynamics of the poultry industry?

SUMMARY:

In 1950 four out of every ten farmers in the country produced and sold hogs or pigs. Nearly all hog enterprises were small and part of a diversified farm business. Inputs were mostly farm produced. Production systems differed little among farms. While total industry output changed little in the last 30 years, the number of producers shifted from over 2 million small and relatively homogeneous units to a fifth of that number with great differences among them in size of enterprise and production practices. Those three and one-half decades of agricultural history prove that the necessary hog supply can be adequately met by either quite small or very large producers. Kansas has gone through a transition of 135,000 determinant than a larger economy of size. This narrow approach often overlooks the smaller producers hog operation is a smaller part of a larger diversified farm. The changing seasonal work load determines intensity of management given to one single enterprise. So while that diversity may cost some efficiency at certain demanding seasons, the overall diversity lends greater stability to the larger farming operation that constantly must face changing weather, crop and market situations. It is this same diversity and the lower captial nature of hog investment that provides an easier entry level for beginning farmers. Removing the added income generated by hog production for both the beginning and medium-sized farmer can severly weaken the overall diversified approach to their farming operation.

One needs also to mention that not all studies agree on the advantages of large scale hog operations. Hogs living in confinement facilities experience more stress which hinders their rate of weight gain. In a University of Missouri Extension record-keeping program, researchers discovered that it cost large confinement units $1.50 more per hundred weight to produce pork than in small open pasture operations.

It must also be noted that some of the major incentives for large scale farm operations are artifical. Farming has been a lucrative tax shelter investment for high-tax bracket investors that wish to "farm the tax code." Likewise the incentive for incorporation is often not for reasons of efficiency but for tax reasons and limited liabilities. The New York Times reported in 1978 that only 3% of all farms received almost half of the total benefits from tax and credit policies. The 80's ushered in new tax inducements of investment credits and accelerated depreciations. All of this means corporate income would often be taxed at only one third to one half the rate of which the upfront costs were deducted. It comes as little surprise that 27% of United States' farmland is owned by non-farm investors. So the medium-sized farmer may find himself in farming to earn a living while his competitor is less interested in profits in the market place but profits made through the tax system. Thus competition becomes unfair and tilted towards the "progressive trends" of larger operations and fewer farmers.

These "don't buck current trends" arguments also ignore the stability and innovation that a diversified agricultural structure has produced. Many farmers as opposed to just a few insures that more different strategies will be experimented with in dealing with the variables of food production; drought, insects, weeds, crop selection, etc. The greater number of producers guarantees a heathier competition stablizing food prices.

These economies of size also don't take into account environmental costs. A large feedlot has a monumental problem with waste disposal while a smaller farmer welcomes that same waste as a contribution within an integrated soil enhancement program. Waste runoff from a large feedlot may contaminate an underground water reservoir that never gets accounted into the corporation's expenses.

farms in 1950 to 70,000 today. That has resulted both from a natural evolution of technology and artifical inducements of tax shelters for non-farmers and legal advantages of incorporation. Sociological studies prove the readily observable. As large farms squeeze out the medium-size farms, rural communities deteriorate and the displaced migrate to the larger urban areas. Often this only increases the social burdens within the urban areas. The debate on the corporate farm law offers a forum on two different models of agriculture - a small and medium-size farm base that has proven to more than meet our food and export needs and a captial-intensive, industrial model that concentrates productive assests within a few individuals often outside the community. A family farm model integrates the ownership, management and labor while the industrial model stratifies those functions. The former provides a "democratization of decision making" while the latter depends on the belief that economic and public decisions can be best made by a few.

Figure 2.

Cattle, Fattened on Grain Concentrates and Sold for Slaughter: 1974
(Farms With Sales of $2,500 and Over—County Unit Basis)

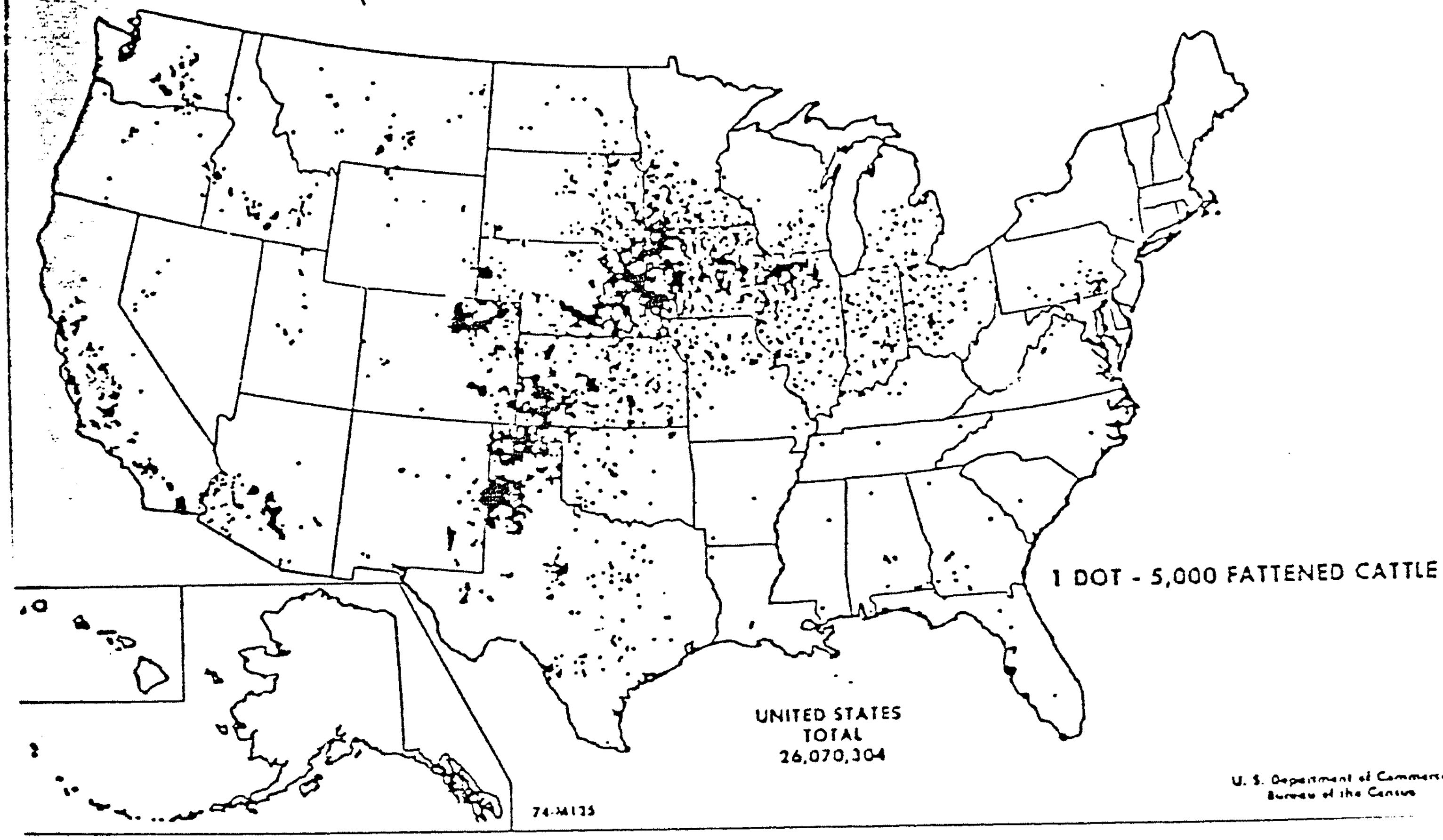
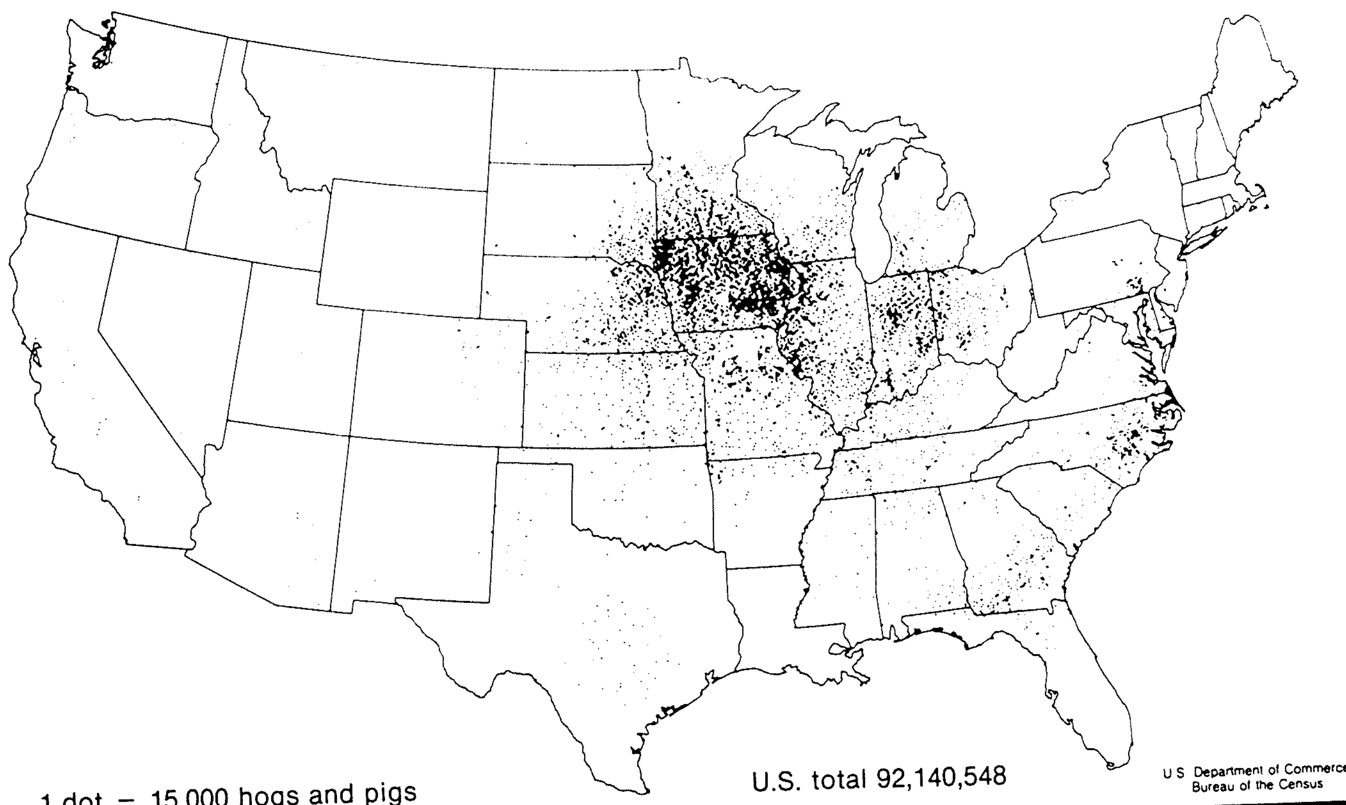


Figure 3

Hogs and Pigs Sold: 1978



February 2, 1987 S

Mr. Chairman, Members of Committee

My name is Bruce Larkin and I represent the 62nd District which is 5 townships in Pottawatomie County, 4 townships in Nemaha County and all of Marshall County. I am here as an opponent of HB 2076 and represent the feelings of the majority of the hog producers in my district. According to the Board of Agriculture Statistics, Nemaha County is #1 in hog production, Marshall County is #4 and Pottawatomie County is #8. Not only is hog production concentrated in my district, but also I represent an area which has one of the highest concentrations of medium sized family farms in the state.

I have information with my testimony which I would like to refer to and ask that you would study on your own time. My argument is based on three things. (1) The unfair competitive advantages which corporate hog operations receive under the federal tax system; (2) Sociological and environmental impacts of concentration of ownership; and (3) possible economic damage to the State of Kansas.

In the information there are a couple of tax analysis sheets from the Center for Rural Affairs. I was told by Roger Claussen who is the tax aide for Congressman Slattery, that in Washington the Center is highly respected and the information they provide is some of the most statistically accurate available. This information is based on the new tax laws which were passed this past year by congress. (Explain)

<u>Quotes from Nebraska Arguments</u>

"The corporate interests out to gut Initiative 300, Nebraska's constitutional amendment restricting non-family farm corporations, want to open the door to corporate tax loss cattle feeding. They veil themselves with self serving arguments about protecting free enterprise and developing Nebraska's economy, and claim 300 denies them a change to compete."

"But the trust is that Initiative 300 doesn't stop anyone from investing in Nebraska agriculture or feeding cattle. It simply forces them to compete with family farmers on a <u>fair and equal basis</u>, as individuals or general partnerships. And that presents them with a problem. They can't compete without the special privileges and unfair advantages of incorporating."

Attachment 5
02/03/87

"By incorporating, non-farm investors can gain tax breaks not available to farmer-feeders. These advantages are worth up to $37 per head on investments in cattle that are fed for them by commercial feedlots set up for that purpose. That is a $37 per head subsidy on investments that would otherwise only break even. That isn't fair to farmers-feeders who are not in a position to use the tax breaks or to taxpayers who have to make up for the taxes lost to the U.S. Treasury through these tax breaks."

"The corporate apologists say that corporations may have some tax advantages, but to deny them in Nebraska is to strangle our economy. We need more capital in agriculture, we are told, and if we keep it out of Nebraska, this tax-sheltered capital and the cattle feeding industry will go elsewhere."

"But cattle feeding is not going elsewhere. The number of cattle marketed monthly from Nebrasks feedlots has set 14 records since 300 passed. While cattle numbers are down elsewhere they continue to grow in Nebraska. That's because Nebraska is well situated for cattle feeding. It has a drier climate and less mud than states to the East, and much more abundant corn than Texas and other high plains cattle feeding states, where water for irrigation is running short. Cattle feeding will grow in Nebraska. The question is who will do the feeding? Initiative 300 requires that the competition to exploit Nebraska's natural advantages in cattle feeding will be fairer."

"That's backed up by University of Missouri research which found that moderate sized farmer feeders could feed cattle as efficiently as large commercial lots, but that the larger the lot the more effectively it can solicit tax motivated investors to place cattle in their lots. Farmer feeders can compete in feeding cattle, but they can't compete setting tax shelters to investors."

"The alleged economic development benefits of corporate cattle feeding would come at the cost of losing many of our farmer feeders and lowering profits for those that remain."

I don't know if there are going to be any incentives on the state level but, if there are they will only add to the unfair advantage which these corporations have. Also, I am drawing up a resolution to send to the Kansas delegation calling for elimination of these tax shelters by increasing depreciation from 7 to 13 years and putting a 10 million dollar cap on the cash accounting provision. I would also encourage reinstatement of income averaging. I have received support for this from Congressman Slattery and and I would also ask for support from members of this committee. I would have no problems with corporate farms if everyone was playing on a fair and equal playing field.

The second consideration is Social and Environmental. From Impact of Corporate Farming on Small Business a Report by Select Committee on Small Business says, "The evidence clearly shows that one of the social consequences of a shift to corporate farming is accelerated farm-to-city migration. The cost of this upheaval has not been adequately measured. There is no doubt, however, that the price is substantial both in terms of human hardship and of public dollars to underwrite solutions to already critical urban problems." Another study from the University of California at Davis show, and I quote, "Our research tests the relationship of the farm structure and social conditions. There are three possible outcomes to test of this relationship. First, there is no relationship between farm structure and community conditions. This is the assumption of current U.S. Agricultural Policy. We know know this assumption to be false. Second, the relationship between farm structure and community well-being might be a "Laffer Curve" relation: farm size increases result in increased profits for a small number of farmers, these profits eventually percolate back down to the remainder of the community, improving economic and social conditions for everyone, not just the farm owners. We have found no evidence of this. The third and least likely outcome, from the standpoint of economic theory, would be that farm size increases are associated with community deterioration. It is this last outcome which consistently appears throughout the California Central Valley. From our recent research for the Office of Technology Assessment, we know that California agriculture is not unique in this regard, we have found similar results in Arizona, Texas and Florida."

"In 1970 we found a weak, statistically insignificant, but positive relationship between agriculture and poverty: agricultural development led to a reduction in poverty. By 1980 this relationship was a strong, statistically significant, negative relationship: agricultural development now led to an increase in poverty. Thirty percent of the rate of change in poverty was predicted by differences in agricultural structure. As farm sizes increase, so does poverty. <u>The faster farm sizes increase, the faster the rates of poverty increase</u>. The reverse is also true: smaller farms show less poverty."

Summary of Agribusiness (Page 7 of study No. 2, 1st Paragraph).

"<u>Summary of the Agribusiness/Small Community Opposition</u>: Everyone who has done careful research on farm size, residency of agricultural land owners and social conditions in the rural community finds the same relationship: as farm size and absentee ownership increases, social conditions in the local community deteriorate. In our own studies, we have found depressed median family incomes, high levels of poverty, low education levels, social and economic inequality between ethnic groups, etc., associated with land and capital concentration in agriculture. Of course this deterioriation is accompanied by increasing wealth for a few farmers who understandably have real difficulty seeing the emerging general problem as their own personal situations improve."

The cost of the Environmental Impact of concentrated feedlots and hog feeding facilities could be enormous as concentrated runoff will contaminate both rivers and underground water supplies leaving a potential long-term water quality problem.

The third part of my argument is that of potnetial Economic damage to the state of Kansas. Corporate hog production will eventually create a shift from small producers to corporations, not from an efficiency standpoint, but because of tax subsidies.

"Tax policy has attracted non-farm capital into these sectors to an extent that defeats any attempt to argue the case for corporate or large-scale farming on the basis of conventional tests of efficiency or economies of size. The greatest stimulus arises from capital-gains tax provisions and from the opportunity for non-farm investors to use farm losses to offset non-farm income."

Another study from the report of the Select Committee on Small Business shows "of 190,000 farm families using supervised credit of the Farmers Home Administration showed they grossed $3.2 billion and spent all of it locally. The breakdown showed $736 million spent for clothing, food and other consumer items; $1.7 billion for goods and services to produce crops and livestock, and $704 million to retire debts and buy new farm machinery.

Commenting on the close relationship the study showed between farm families and local business firms, the agency's administrator told the subcommittee:

The managers of large-scale corporation farms deal directly with the wholesalers or even the manufacturers of the products they need * * *In an area where corporation farms dominate there is no place for the village farm supply dealer, the co-op grain elevator, the small banker. You simply cannot have corporation farms and small business enterprises cheek and jowl. On the other hand, where family farms thrive, small businesses flourish, too."

There is no doubt in my mind that if tax subsidized corporate operations are allowed in Kansas it will accelerate the shift from diversified private ownership to concentrated wealth and ownership of both livestock and land. The damage to the Kansas economy will be momunmental as we shift profits away from thousands of individual operators who spend their profits in this state, to wealthy corporate stockholders who for the most part will reside out of state. Also the the hog industry is different than the cattle industry. As corporate investment in cattle took over the feedlot industry, the thousands of individual operators who use to finish cattle changed their operations and began backgrounding calves. In the hog industry the take over will be total as corporations will be farrow to finish.

If we are looking at Economic Development in agriculture then we should concentrate on programs that will help young farmers get started in our rural areas, not by trying to take away their chances of farming. I will close my argument by using another quote from the Nebraska argument and adopt it to Kansas.

"The real issue is what type of economy and society do we want. Do we want a corporate farm economy where tax subsidized investors feed hogs in lots employing Kansans at little more than the mimimum wage, with the profits drained out of state? Or do we want an efficient family farm economy where the people who do the work also enjoy the benefits of ownership, and support their communities?"

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TAX BREAK ON LIVESTOCK AND POULTRY BUILDINGS HURTS FAMILY FARMERS

When the House and Senate each completed their versions of the tax reform bill in 1985 and 1986, they both agreed that one widely abused tax shelter should end. Livestock, dairy and poultry buildings had been defined as equipment for tax purpose to qualify them for an unrealistically short depreciation term. The irrational provision encouraged more expansion in an industry already burdened by overproduction and placed family farmers at an unfair competitive disadvantage with large corporate farmers who could better exploit the break. Nonetheless, when the conference committee revealed its version the corporate farmers had won. The tax shelter survived.

The following example compares the benefit of this break to three different hog producers: a 15% bracket beginning farmer with 40 sows and $15,000 invested in remodling old barns; a 15% bracket, 100 sow established farmer with $60,000 and some of his own labor invested in new farrowing, finishing and nursery buildings; and a 34% bracket 10,000 sow corporate operation with $10 million invested in new buildings*. We measure the value of the break by comparing the present value of the tax savings under the seven year equipment depreciation schedule with the present value of the tax savings under the 15 year depreciation schedule, which is more reflective of the buildings' useful lives.* This the interest value of having the savings sooner under a faster writeoff. The break is worth nothing to the beginning farm couple, making $18,000 per year. Accelerating the depreciation creates more writeoffs than they have taxable income, causing them to forfeit part of the standard deduction and personal exemptions for their family of five. The established family farmer gets only one fourth the break as the large corporate farm. The break is worth more the higher the tax bracket and the more invested in facilities (capital) to replace labor.

VALUE OF ACCELERATING DEPRECIATION ON HOG BUILDINGS

	Beginning Farmer 15% Bracket	Established Farmer 15% Bracket	Corporate Farm 34% Bracket
Benefit Per Sow In Herd	00.00	$26.18	$98.91
Hog Price Increase Of Equal Value To The Break***	00.00	$.08	$.31

The Long Term Cost - Because this break encourages more building and production, it lowers hog prices. The established farmer's $.08 per 100 lbs. tax benefit will be more than lost by the price impact of just 100,000 additional corporate hogs. The 7,000 sow expansion by Murphy Farms, Inc. (of North Carolina) in 1986 will cost more in lower hog prices than the average farmer gains from rapid depreciation of hog buildings.

*Building costs include structures only; not equipment.
**We use a 10 percent discount rate.
*** Per 100 lbs produced over 15 years, discounted to present value at 10%

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CORPORATE CASH ACCOUNTING MEANS CORPORATE FARM EXPANSION

When is a corporation with sales of over $1 billion a family farm? The answer: when corporate farmers and high paid lobbyists go to work on Congress.

Congress warped the definition of family farm to allow corporate giants such as Tyson Foods, Inc., with annual sales of over $1 billion, and Perdue Farms, with sales of over $700 million, to use cash accounting. This tax break is generally denied to corporations with over $5 million sales, except for "family farms". Most corporations are required to use accrual accounting, which means that increases in inventory are counted when computing income for tax purposes. Under cash accounting growth in inventory is ignored. This creates lucrative opportunities for tax avoidance and powerful incentives for expansion. Income reinvested in expanding the inventory is deductable, but the increased value of the inventory is not taxed. That means that each dollar invested in expanding the inventory is sheltered from taxation indefinitely.

Corporate cash accounting is an invitation to corporate farm expansion at the expense of family farmers. In some cases this makes a mockery of federal farm policy. While the government is paying farmers to slaughter their dairy herds, cash accounting provides tax savings of over $400 for each cow added to the corporate dairy herd. This includes the tax savings from adding a $600 raised heifer to the herd, rather than selling her and realizing taxable income; and the deduction for prepaid feed purchased for the heifer in years prior to its consumption. (Prepaid expense deductions are limited to 1/3 of total farm deductions). In the hog industry, cash accounting subsidizes the expansion of the herd by $215 dollars per gilt added to the herd.

SUBSIDIES FOR ADDING ONE DAIRY HEIFER AND ONE GILT TO THE CORPORATE HERD

	Swine	Dairy
A. Value of Raised Heifer/Gilt Not Subject to Taxation	$120	$600
B. Deduction For Prepaid Feed For One Heifer/Gilt Added to Herd	$513	$600
C. Total Reduction in Taxable Income (A plus B)	$633	$1,200
D. Tax Savings Per Heifer/Gilt Added To Herd (Reduction in Taxable Income X 34% Tax Bracket)	$215	$408

Also, cash accounting shelters the value of the calf and pigs produced by the additional heifer/gilt and not sold before year end. This provides an additional $163 (swine) and $75 (dairy) of tax savings. ALSO SEE BACK PAGE

PREPRODUCTIVE PERIOD EXPENSE RULES ARE NEEDED: BUT THEY MUST BE CHANGED

"A bookeeping nightmare", is the description often given the preproductive period expense rules. These rules require that farmers capitalize the costs of raising breeding and dairy cattle, horses, and orchards; or continue to deduct these costs means they are depreciated over the life of the cow rather than deducted as incurred.

On one hand, the rules will benefit family farmers by eliminating cash accounting tax subsidies to expand cattle herds and orchard acreage. These subsidies encourage over expansion resulting in lower farm income; and they grant a competitive advantage to high bracket taxpayers who can better exploit the tax benefit. Money invested in raising heifers to expand the herd size is totally sheltered from taxation as long as the herd remains at the larger size or continues to grow. If that heifer were sold rather than added to the herd, the farmer would be taxed on her value. In effect, the government pays a 32% bracket taxpayer $192 for each cow added to the size of his dairy herd, more than twice the benefit to a 15% bracket farmer.

TAX SAVINGS PER $600 DAIRY HEIFER ADDED TO THE HERD

15% Bracket	28% Bracket	32% Bracket	34% Bracket
$90	$168	$192	$204

On the other hand, the rules should not create a record keeping burden. It would be nearly impossible for a farmer to separate the cost of raising each replacement heifer from conception, from costs of raising bull calves. Farmers should be allowed to use the unit livestock method of accounting, under which they would make a one time calculation to determine the average cost of raising a dairy heifer, for example, and depreciate that amount each time one is added to the herd. It appears that the IRS will allow this.

The rules should also not discriminate against diversified farmers. Specifically, farmers who elect to deduct preproductive period costs should be required to use straightline depreciation only on assets used in the particularly enterprise (for example, the beef cow herd) for which the costs are being deducted. The 1986 tax bill requires straightline sacrifices rapid depreciation on a full line of farm equipment; over $400 of depreciation annually on equipment and buildings for each cow in his herd, versus $6.50 for a Nebraska Sandhills rancher.

BUILDINGS AND EQUIPMENT SUBJECT TO SLOW DEPRECIATION, PER COW IN THE HERD

489 Acre Northeast Nebraska Diversified Grain Farmer, 50 Cow Herd	$404.62*
Nebraska Sandhills Ranch	$6.50*

*Based on University of Nebraska 1985 Crop and Livestock Budgets

RESOURCE DISTRIBUTION AND COMMUNITY DEVELOPMENT: A CASE STUDY FROM RURAL CALIFORNIA

Trudy Wischemann, University of California, Berkeley
(printed in: EDRA/16. Proceedings of the Environmental Design Research Association Conference, June, 1985.)

ABSTRACT

A landmark community study in rural sociology showed the negative effects of large-scale agriculture on community development and social structure. An update of this study indicates the persistence of these effects and details their influence on the community environments. Planners and designers need to consider the general effects of resource distribution on social structure to enhance success of community development programs and to preserve authentic qualities of communities generated by individual human investments in their environments.

INTRODUCTION

Community development is a term commonly used for the deliberate act of improving community environments; it also refers to the actual historical pattern of sociological, economic and environmental change of a given community. Because of their active role, planners and designers tend to focus on the first definition and overlook the second. However, understanding the constraints and variables of "natural" processes of community development is important to the success of those deliberate efforts. This paper presents some research on one important variable - resource distribution - and the implications for environmental planning and design.

The leading work in this field is a comparative study of two agricultural communities, Arvin and Dinuba, California (Goldschmidt, 1946). Goldschmidt compared two farm communities that were similar in most respects except for the size of farm: Arvin, supported by large-scale corporate farms averaging 497 acres in size, produced an equal dollar value of agricultural products to Dinuba, supported by family farms averaging 57 acres (Figure 1). The level of community development and the quality of life in each town differed dramatically, however:

1) Dinuba, the small-farm community, had twice as many businesses and 61% more retail trade than Arvin;

2) 20% more people were supported in Dinuba per dollar value agricultural products than in Arvin, and Dinuba's average standard of living was higher;

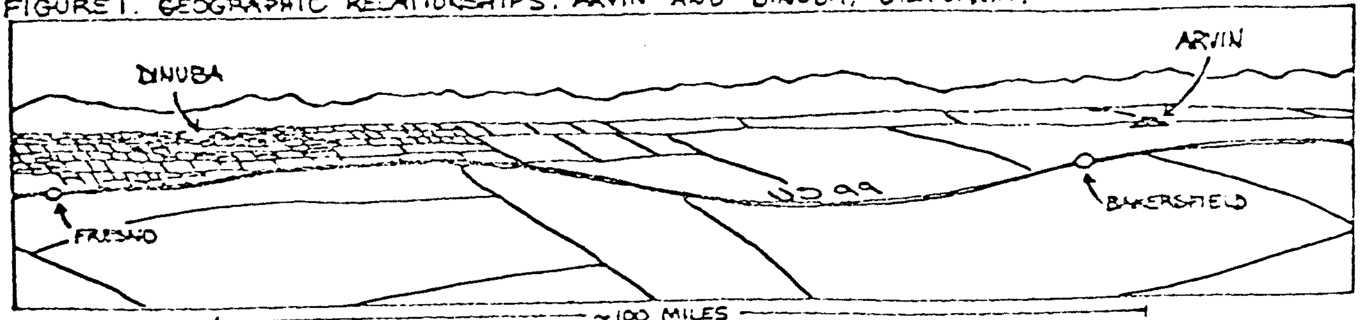
3) schools, parks, civic and social organizations, public recreation facilities, newspapers, and churches in Dinuba all outnumbered those in Arvin by 2:1 or more;

4) community infrastructure was far more developed in Dinuba than in Arvin, which completely lacked some basic services and facilities;

5) Dinuba, an incorporated town, had developed democratic political institutions for community decision-making, while decisions in Arvin, which was unincorporated, were made at the county level. Goldschmidt noted that the effect of this county-level jurisdiction was that community decisions were actually made by a small, local power elite:

"It is highly significant that at a meeting of one of the Arvin civic

FIGURE 1. GEOGRAPHIC RELATIONSHIPS, ARVIN AND DINUBA, CALIFORNIA.



Tax Shelter Cattle Feeding How It Works

The corporate interests out to gut Initiative 300, Nebraska's constitutional amendment restricting non-family farm corporations, want to open the door to corporate tax loss cattle feeding.
1 They veil themselves with self serving arguments about protecting free enterprise and developing Nebraska's economy, and claim 300 denies them a chance to compete.

But the truth is that Initiative 300 doesn't stop anyone from investing in Nebraska agriculture or feeding cattle. It simply forces them to compete with family farmers on a fair
2 and equal basis, as individuals or general partnerships. And that presents them with a problem. They can't compete without the special privileges and unfair advantages of incorporating.

By incorporating, non-farm investors can gain tax breaks not available to farmer-feeders.
#15 These advantages are worth up to $37 per head on investments in cattle that are fed for them by commercial feedlots set up for that purpose.
3 That is a $37 per head subsidy on investments that would otherwise only break even. That isn't fair to farmers-feeders who are not in a position to use the tax breaks or to taxpayers who have to make up for the taxes lost to the U.S. Treasury through these tax breaks.

Farming the tax code can be a complicated business. But bear with us and we'll lead you through a case study of cattle feeding at the federal tax trough.

Shultz Cattle Company, Inc. of Amarillo Texas is a leader in farming the tax code. A Shultz advertisement invited investors late last year to "Act Now! Convert 1985 ordinary income into LONG TERM CAPITAL GAINS through commercial cattle feeding in 14 months". It worked something like this, though some details may vary from the Shultz plan.

In November 1985, an investor bought 200 head of cattle and $50,000 worth of feed and feeding services. This investor acted as an individual, not as a corporation. The cattle were placed in a commercial custom feedlot operated for just this purpose. The $50,000 was immediately deducted from his 1985 taxable income. Since the investor was in the 50% tax bracket, that is a tax savings of $25,000.

In January of 1986 a corporation was formed to own the cattle. The cattle will later be sold and the proceeds later reinvested in another 200 head of cattle and $50,000 of feed and feeding services. Next January (1987), two thirds of those cattle will be sold. If the cattle operation only recovers its first year expenses, the investment breaks even. The amount deducted in the first year must be treated as income in the second year, and is subject to tax. The first $25,000 will be taxed at the 15% corporate rate and additional amounts at the 18% corporate rate.

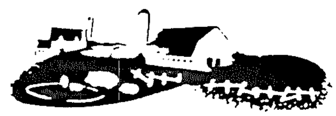
The big coup though comes when the investor decides to complete the "sell out" of his cattle feeding operation. Rather than selling the remaining one third of the cattle, he sells the stock in the corporation that owns them. The increased value of this stock (which is really nothing more than previous income sheltered from taxation in 1985) is no longer regarded as regular income. If it were, it would be taxed at the investor's regular tax rate, which is 50%.

Instead, since the stock was kept more than twelve months, the increase in its value is considered "capital gain". Under tax rules, only two-fifths of that capital gain is subject to taxation. That means this "cattle feeder's" income has been "converted" into capital gain by the miracle of merely owning cattle, and instead of paying taxes at the 50% rate, he now pays at an effective rate of 20% (40% of the profits are taxed at the 50% tax rate -- 40% x 50% = 20%).

Therein lies the secret. In 1985 the investor deducted his $50,000 of expenses against his personal income at the 50% rate, for tax savings of $25,000. But when he sells the cattle and recovers those expenses, they will be taxed at lower rates. In 1987 he'll owe the IRS only $14,200 on taxable income of $50,000 earned in 1985. Even though he really only broke even feeding cattle, he is granted a net tax savings of $10,800 ($25,000 tax savings in 1985 minus a $14,200 tax bill in 1987).

Even the tax that he does pay has been

(over)



deferred for two years from 1985 to 1987, which in effect is an interest-free loan from the IRS worth $4260 ($14,200 x 15% interest x 2 years). The total tax subsidy amounts to $15,060 ($10,800 plus $4260), or $37.65 for each of the 400 cattle fed. It amounts to a 30 percent return on the $50,000 of cash he personally invested, despite the fact that the cattle feeding venture was actually only a break even 6
deal.

Good For Nebraska?

The corporate apologists say that corporations may have some tax advantages, but to deny them in Nebraska is to strangle our economy. We need
4 more capital in agriculture, we are told, and if we keep it out of Nebraska, this tax-sheltered capital and the cattle feeding industry will go elsewhere.

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because Nebraska is well situated for cattle
5 feeding. It has a drier climate and less mud than states to the East, and much more abundant corn than Texas and other high plains cattle feeding states, where water for irrigation is running short. Cattle feeding will grow in Nebraska. The question is who will do the feeding? Initiative 300 requires that the competition to exploit Nebraska's natural advantages in cattle feeding will be fairer.

Corporate farming interests have tried to lure farmer feeders to their side by promising a partnership between farmer feeders and corporate investors, who would pay farmers to feed their cattle, an arrangement known as custom feeding. But that option will be available only to a few of the largest feeders. When Shultz cattle company advertised in the Omaha *World Herald* last year for Nebraska feedlots to feed cattle owned by individual investors, it made one stipulation. Feedlots with less than 10,000 head capacity were told they need not apply.

That's backed up by University of Missouri research ~~which~~ found that moderate sized farmer feeders could feed cattle as efficiently as large commercial lots, but that the larger the lot the more effectively it can solicit tax motivated investors to place cattle in their lots. Farmer feeders can compete in feeding cattle, but they can't compete selling tax shelters to investors.

Nor can they compete in a cattle feeding industry crowded by tax shelter investors who can afford to drive production up and prices down too low for farmers who can't reap the tax subsidy. For example, if 300 is changed and the number of corporate cattle fed in Nebraska increases by 250,000 head, it would lower fat cattle prices by approximately 50 cents per cwt. (assuming half of that would represent new production and the other half cattle that would have otherwise been fed by farmer feeders .That would cost a farmer feeder $5,000 on 900 cattle. The alleged economic development benefits of corporate cattle feeding would come at the cost of losing many of our farmer feeders and lowering profits for those that remain.

These costs outweigh the benefits in the long run. A dollar of income on cattle fed in Nebraska by a Wall Street investor will not have the same benefit to the community and state as a dollar of profit in the hands of a farmer feeder. Profits made by a farmer feeder will stay in the state and in the community. A farmer feeder will buy locally. A giant feeder will buy direct from processors and manufacturers, bypassing the local community.

The real issue is what type of economy and society do ~~Nebraskans~~ want. Do we want a corporate farm economy where tax subsidized investors feed cattle in lots employing Nebraskans at little more than the minimum wage, with the profits drained out of state? Or do we want an efficient family farm economy where the people who do the work also enjoy the benefits of ownership, and support their communities?

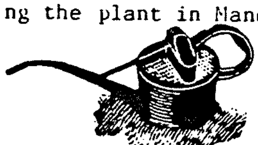
IBP Tightens Grip

Iowa Beef Packers Incorporated (IBP) is tightening its grip on the Iowa pork packing industry, which is bad news for both farmers and workers. IBP recently announced plans to build a 4 million hog per year packing plant at Manchester Iowa, which would bring its annual statewide capacity to 13 million hogs, nearly half of Iowa's production.

This level of concentration threatens packer competition and prices paid for farmers' hogs. A recent Clemson Univesity study found that each one percent increase in the share of the hog market held by the four largest packers reduces hog prices by about 2 cents per cwt. According to that formula, the Manchester plant would reduce hog prices by nearly 30 cents per cwt. A University of Wisconsin study of the beef packer industry reached similar conclusions. Researchers found that the presence of IBP in a beef marketing region reduces fat cattle prices by 44 cents per cwt.

The incomes of working people are also threatened. IBP has the lowest pay scale of the major packers and is constantly pushing them lower. The company locked out workers at its Dakota City plant on December 15 when they refused to accept a cut in the meager $5.90 per hour base pay. This forces other packers to push their wages lower to compete.

IBP is demanding property tax concessions, longer airport runways for company jets and job training subsidies for locating the plant in Manchester.



6
WYAH
KS Farmers

TESTIMONY GIVEN BY

IVAN W. WYATT

PRESIDENT OF THE KANSAS FARMERS UNION

BEFORE THE

HOUSE COMMITTEE ON ECONOMIC DEVELOPEMENT

H.B. 2076 - CORPORATE HOG BILL

FEBRUARY 2, 1987

MR. CHAIRMAN, MEMBERS OF THE COMMITTEE,

EVERYONE SEEMS SO INFATUATED WITH THE NEW TERMINOLOGY CALLED "ECONOMIC DEVELOPMENT", THAT ONE MIGHT SUSPECT ANY PROGRAM THAT CAN COME UNDER THIS LABEL HAS TO BE A GOOD PROGRAM. A WIDE VARIETY OF PROGRAMS ARE SURFACING IN THE NAME OF "ECONOMIC DEVELOPMENT."

FIRST, WE HAD BETTER TAKE A CLOSER LOOK AT WHAT ECONOMIC DEVELOPMENT IS ... ON A CASE BY CASE basis WHAT IT MEANS? WHAT IT WILL ACCOMPLISH? AND HOW? WE NEED TO ASK WHAT ARE THE GAINS AND WHAT THE COSTS WILL BE?

SEVERAL QUESTIONS HAVE TO BE ANSWERED BEFORE WE BLINDLY ACCEPT ANY OR EVERY PROGRAM AS A SOLUTION TO OUR PROBLEMS JUST BECAUSE IT IS LABELED AS "ECONOMIC DEVELOPMENT". FIRST, WE HAVE TO BE SURE THAT WE HAVE ALL THE FACTS STRAIGHT.

MANY OF THOSE, WHO ADVOCATE REPEALING ALL OR PART OF OUR PRESENT CORPORATE FARMING LAW, MAY BE USING FLAWED INFORMATION. FOR EXAMPLE, IN DECEMBER, FRANK CUNNINGHAM OF K-STATE STATED, "THE STATE'S SOUTHEASTERN BOARDER IS BUT 35 MILES FROM ARKANSAS, THE NATION'S LEADING BROILER PRODUCING STATE".

THIS STATEMENT LEADS US TO BELIEVE THAT ALL WE HAVE TO DO IS CHANGE OUR KANSAS CORPORATE FARMING LAW AND THEN THE BROILER AND PORK INDUSTRY WILL FLOCK TO KANSAS.

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IN REALITY, THE SITUATION IS TOTALLY DIFFERENT. WHO IS THE NATION'S LARGEST BROILER AND PORK PRODUCER.

IT IS TYSON FOODS OF SPRINGDALE, ARKANSAS, WITH $1.5 BILLION IN SALES LAST YEAR.

BUT WHAT IS TYSON FOODS DOING? ARE THEY MOVING TO MAJOR GRAIN PRODUCING AREAS? ARE THEY MOVING TO AREAS OF MORE MODERATE CLIMATE? ... NO!

THEY ARE MOVING TO THE DEEP SOUTHERN AND SOUTH-EASTERN AREAS OF THE NATION ... WHY ... CHEAPER LABOR IS THE ANSWER.

ARE CORPORATE FARMING LAWS THE REASON THAT TYSON IS MOVING INTO THESE AREAS. NO, AGAIN, BECAUSE TYSON FOODS IS CONSIDERED A FAMILY FARMING OPERATION BY THE I.R.S. DUE TO THE TYSON FAMILY CONTROL OF OVER 50% OF THE COMPANY STOCK.

SO ... WHY ARE WE CONSIDERING CHANGING THE KANSAS CORPORATE FARMING LAW? ARE WE WANTING TO THROW KANSAS TAX DOLLARS AT CORPORATIONS TO LURE THEM INTO KANSAS TO DO WHAT THE KANSAS FARMERS ALREADY DO EXCEEDINGLY WELL?

WHAT KANSAS NEEDS IS A MARKET FOR THE FAMILY FARM PRODUCERS THAT ARE ALREADY HERE! KANSAS STATE'S BARRY FLINCHBAUGH HAS SAID FOR YEARS THAT, "WHO EVER CONTROLS THE MARKET, WILL CONTROL AGRICULTURE".

INSTEAD OF BRIBING CORPORATE PRODUCERS TO MOVE INTO KANSAS, WE NEED TO DEVELOPE THE PROCESSING MARKET. KANSAS SECRETARY TO THE BOARD OF AGRICULTURE, SAM BROWNBACK, CONTENDS THAT "THE STATE MUST NOT WASTE TIME CHASING AFTER FLASHY ECONOMIC DEVELOPMENT PROJECTS."

BROWNBACK STATED THAT KANSAS SHOULD GET A "BLUEPRINT FOR AGRICULTURE" AND HAS SUPPORTED A PROGRAM UNDER WHICH KANSAS WOULD SELL BONDS TO FINANCE LOANS TO HELP FARMERS DIVERSITY.

THESE TYPE PROGRAMS THAT HELP MAINTAIN THE RURAL INFRASTRUCTURE OF KANSAS MAKE MUCH MORE SENSE. IT IS VITAL TO DEVELOPE AND ENHANCE THE ECONOMIC DEVELOPMENT OF THE STATE AS A WHOLE: THEREBY, PROVIDING VALUE-ADDED AT THE FARM GATE AND IN THE MANY COMMUNITIES OF THE STATE.

A JOINT, COOPERATIVE EFFORT OF STATE BONDS, LOCAL COMMUNITIES AND PRODUCERS SHOULD BE UTILIZED TO DEVELOPE AND MAINTAIN LOCAL MARKETS AND PROCESSING PLANTS.

IF YOU WANT TO ALLOW SMALLER TOWNS TO FADE AWAY, THEN YOU SHOULD VOTE FOR THIS CHANGE IN THE KANSAS CORPORATE FARMING LAW. THEN WE CAN BRIBE OUT-OF-STATE CORPORATIONS TO COME INTO KANSAS AND CONCENTRATE PORK PRODUCTION IN ONE OR TWO AREAS OF THE STATE. THIS WILL DENY THE REST OF KANSAS THE OPPORTUNITY TO DIVERSIFY FARM PRODUCTION AND VALUE-ADDED AT THE FARM GATE.

AN EDITORIAL IN THE "WASHINGTON COUNTY NEWS" POSES SOME PERTINENT QUESTIONS: "IS ECONOMIC DEVELOPMENT OUR ONLY GOAL? MUST WE SACRIFICE OUR FARMERS ... THE FABRIC OF OUR RURAL SOCIETY?"

THE "WASHINGTON COUNTY NEWS" ASKS, "DOES THE GROWTH IN FINNEY COUNTY REFLECT MORE FAMILY FARMERS WORKING THEIR OWN LAND? MORE LIKELY, THEY ARE EQUIVALENT OF FACTORY JOBS, JUST IN RURAL COUNTRY INSTEAD OF A CITY." THEY CONTINUE, "ECONOMIC DEVELOPMENT IS NECESSARY, BUT NOT IN AVENUES THAT FURTHER UNDERCUT FARM FAMILIES."

FROM THE HUMANISTIC STANDPOINT, WE MUST ALSO CONSIDER SOCIAL AND MORAL VALUES AND HOW THEY ARE AFFECTED BY THE DEVELOPMENT.

OUR ULTIMATE GOALS SHOULD NOT BE TO HAVE THE KANSAS CITIZENRY PROVIDE CHEAP LABOR FOR THE BENEFIT OF OUR-OF-STATE CORPORATIONS. OUR GOAL SHOULD BE TO HELP KANSAS DEVELOPE A BROAD, MORE DIVERSE AGRICULTURAL BASE, BENEFICIAL TO ALL, RATHER THAN CONTROLLED BY A FEW.

I URGE THIS COMMITTEE NOT TO GO CHASING AFTER THESE <u>FLASHY</u> ECONOMIC DEVELOPMENT PROJECTS. I URGE YOU TO DEFEAT THIS BILL AND TO DIRECT YOUR EFFORTS TO A WELL-PLANNED PROGRAM OF JOINT COOPERATION TO BRING REAL AND LASTING ECONOMIC DEVELOPMENT TO KANSAS' MANY RURAL COMMUNITIES.

THANK YOU.

TO: ECONOMIC DEVELOPMENT COMMITTEE

FROM: JIM NELSON, RURAL ROUTE 1, WINDOM, KS 67491

REF: HOUSE BILL 2076

I am a pork producer from McPherson County with a farrow to finish operation. During 1986 the farm had a gross income of $268,000 with hogs providing $128,000 in gross sales. The hogs sold were the result of a herd of 75 sows. If it were not for hogs, I seriously doubt I would be able to farm. I mention these figures so you will realize $268,000 was contributed to the local economy from one farmer because he had hogs to maintain the cash flow and income needed to keep a viable farm.

Using the most current figures of 1985 from the Kansas Board of Agriculture State Statistical Reporting Service, there were 8300 producers raising 1,646,000 slaughter hogs in Kansas. Using todays values, these same hogs would generate sales of $189,290,000 or roughly $22,806 per farm. These dollars were put back into the local economies of many towns across Kansas.

I would like to express my concern about changing the Farm Corporation Law, and counter some of the explanations used in seeking a change.

a) "Allowing expansion through changes in the current law would stabilize or increase production numbers."

We as pork producers are not in a growth market. Currently, we can kill about 230,000 head a day at $65.00 cwt. to 330,000 head a day at $35.00 cwt. depending on the average daily kill weight. The market is very volatile and will react rapidly to any anticipated change in numbers. The market can only absorb a given number of hogs at a given price level. With rapid advancement in technology, it is not difficult to increase hog numbers if added production is necessary. Pork production is a very mature industry, and cannot accept new production without either new demand or lower prices. If we allow large corporations into the state, we will displace pork producers in our state and other states. For every 1000 sow operation brought into our state, 30 producers with average size operations will be displaced. Is this what we want to achieve by changing the Corporate Farm Law?

Hogs have been mortgage lifters for many years and have helped young men get a foothold into farming. A young producer can be the most efficient in terms of production, but cannot compete with large corporations. Local pork producers must cut production when the profits are gone for a considerable length of time. Ultra large units tend to keep production at a maximum in order to keep per unit costs at a minimum. They may decide to expand when hog prices are below break even because they think the market cycle has bottomed. Individual farmers don't have multimillion dollar parent companies to pump money into their operations when prices are low.

Several years ago pork producers lobbied hard for 10% investment credit on swine facilities. It brought outside investment into the industry - mostly for tax shelter. As it turned out, we encouraged production during times of low prices. Hopefully the new tax law will correct this situation.

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b) "Changes would allow us to keep present packing plants open and entice new packing industry into the state."

New packing plants would be a producers delight. I question, however, whether a change in the law is proposed to encourage packing plants into the state for the current producer, or to invite large corporations who will attract the packing industry.

c) "The cattle feeding industry is an example of economic development in Kansas."

There is a flip side to this story. Remember packing plants called Swift, Cudahey, and Armour? What happened to the Wichita Stockyards? What happened to the farm feeders in Kansas and the corn belt? More recently, have you noticed most of the feeder cattle going directly to feedlots and bypassing sale barns? Several large feed lots in Kansas borrow money outside the state and carry their checking accounts with these same banks. Thousands of bushels of grain are brought in from other states to feed because local grain is tied up under government loan. What appears on the surface may be only what we want to see. Consolidation was devastating to many people getting the industry where it is today.

d) "The development of these interest would have a positive impact on land values and create more demand for the crops grown in the state."

Several large corporations would have a difficult time having a positive impact on land prices. The contrary may exist. As more producers are forced out of production, total farms may be sold due to the lack of cash flow. Large hog confinement units would be in isolated areas across the state, very little impact could be felt. As for crop values--there are only a certain number of hogs raised at a given price level. Grain prices may rise in a given area where hog numbers are great, but grain will be in excess in other areas due to the lack of hogs. Total consumption of grain will remain fixed across the United States, so the average price of grain will remain somewhat constant.

e) Progressive producers in states that allow ultra-large units are competitive with them."

There are several large units in Kansas, but they are family owned. There is nothing which keeps them from becoming ultra-large units and I expect some will. I can compete with any of these large units because they have the same base I have. They are limited by capital, feed, facilities and labor. Large corgorations on the other hand have access to money from parent companies. When facilities are built, they will be modern and built with contract labor in a short period of time. Yes, I can compete, but not if they refuse to liquidate during times of low prices as large units have demonstrated. I can compete, but it will be tough when they add 5000 sow units from an unlimited source of capital.

f) "New ultra-large units will be built somewhere, why not in Kansas where Kansas can reap the benefits of the developing industry?"

We all want economic development for Kansas. Adding to a mature industry can be the beginning of devastating problems. Large corporations will buy protein and mineral at the lowest price from one supplier not spreading the wealth among communities. Consider what kind of people will be employed. It doesn't take too many white collar jobs to run a large hog operation. Local coops and small elevators who have feed mills will suffer from consolidation of the hog industry. Large corporate units will provide their own vets, nutritionists, and building consultants. Most of these people are mobile and live in other states so they can consult other hog units.

Kansas has seen a decrease in the number of hog farms during the past 5 years, but the number of slaughter hogs is about the same. Hog production is different from the feedlot industry. Ranchers still have cows and calves. Small feeders still background cattle to sell to feedlots. Large hog units on the other hand farrow to finish hogs. Once they are consolidated there is no room for a small producer.

Large companies are already in Kansas. Tyson, the large chicken company is feeding 6000 purchased hogs near Newton in a contract arrangement with farmers. Cargill has contract arrangements with farmers to raise chickens in Kansas. These corporations are operating under the present law.

Kansas has an opportunity in the hog industry, but let's build on the strengths of producers we currently have; producers who will be here tomorrow, adding to the health of local economies.

Big is not always better. The Kansas Corporate Farm Law is as important today as it was at its conception. Large Corporate farms take care of themsleves instead of the needs of others and the land they use. To change the law for one or two individuals or corporations is not right or in the best interest of the state.

I hope your decision will allow me to continue being a pork producer.

TO THE ECONOMIC DEVELOPMENT C[illegible]MITTEE FEBRUARY 2, 1987

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Thank you Mr. Chairman:

I come in opposition to HB 2076. I am Mary Harper, a farmer from Western Kansas, Scott County. We are very familiar with the cattle feedlots and we have some hog producers there, also. The hog producers are generally individual family farmers, although one farrowing house is owned by local investors. The corporate laws we have in Kansas seem to be loose enough to allow those doctors and lawyers who wish to promote their local communities to keep their money at home and many people prefer to buy locally produced and processed meats.

I have decided that my opposition to this bill is basically philosophical, but I guess you need more than that to decide this issue. I don't have statistics to back up my philosophical notions but one argument I hear for this bill is that we must keep our young people in Kansas. I agree. And you all know that if young people have been reared on a farm a great many prefer to return to the farm or at least to return to their rural communities. They lend strength to their communities and the communities lend strength to them. We hear so much these days about the social problems of drugs, alcohol, abused children, battered wives and divided homes. Most social workers agree that economics play a big part and peer pressure in the over-crowded schools and cities are factors. We hear how nobody knows how to work any more and yet demands astronomical wages for what little he does. In fact, many people have no real joy and satisfaction in the work they do. We hear stories about how we must teach displaced farmers and other unemployed people some new trade. Our urban educational plants are overloaded. Tax receipts are down, yet we need more money from the fewer and fewer tax payers if we are to continue our social (socialistic ?) system. We can't continue throwing money at problems but we have to correct them.

Proponents of this bill believe that new businesses will want to locate in Kansas to feed and process hogs and chickens, so I found some statistics which I hope will show you why I believe we can solve our problems without bringing in foreign elements who will take profits elsewhere. We must support the family farmer by allowing him the same tax advantages we would give a new business. I don't necessarily mean give him money to build his business but stop taking so much away from him to support his competition. We must find a way to <u>lower</u> taxes.

The statistics I have here for you are USDA figures which reveal the fallacy of the over-production myth. I realize that you do not have control over the State Department and USDA but you could send a resolution to ask them to stop imports of any commodity we supposedly have in surplus. We have been conditioned to believe that we must export the "surplus" of grain. These figures seem to show that if we did not import any livestock or processed meats we could use any "surplus" of grain. Any unfit for feed and food should be made into ethanol. These are not the latest charts but I doubt that they are very far wrong. I believe we can find ways not to raise taxes and keep our young people here to pay taxes and have a better state and nation. We may not make the Successful Farming 400 but we will be better off emotionally. Let's promote Kansas and "Buy American".

Besides, if the feedlot or hog house isn't our own, most of us prefer not to have one in our area.

Thank you. Are there any questions?

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1) Overproduction fallacy is actually a production shortage. Proof is taken from U.S.D.A. publications.

Column 5 shows production shortage of	6,127,000,000 lbs.
Column 6 shows exports of	3,229,000,000 lbs.
16 year production shortage	9,356,000,000 lbs.
1 year average shortage	5[illegible],[illegible]0,000 lbs.

2) Supply: The increase necessary to produce shortage.

a) 16 year total 9,356,000,000 lbs. Carcass weight is 71% of live weight required.

b) 16 year total of 71% yield converted to 100% live weight is 13,177,000,000 lbs. live weight required.

c) 16 year total 13,177,000,000 lbs. live weight requires additional hog production of 59,895,000 hogs at 220 lbs.

d) 1 year average equals 3,743,438 additional butcher hogs per year to meet the shortfall in production.

3) Summary: Imported pork over 16 year period.

Column 7	9,375,000,000	Dressed weight pounds
Column 8	685,150,681	Net carcass weight pounds
	10,060,150,681	Total imported over 16 year period
	628,759,417	yearly average pounds imported

Balance of pork trade:

16 year total imports	10,060,150,681 lbs.
16 year domestic shortage	9,356,000,000 lbs.
16 year excess imports	704,150,681 lbs.
Yearly average excess imports	44,009,480 lbs. dressed

Our extensions don't include additional breeding stock required to accomplish the production shortage.

4) Raw Materials: The additional grain required to feed 3,743,438 hogs from birth to slaughter is 25 bushels each or about 93,585,950 additional bushels of corn.

5) Best Use of Assets: The additional acreage to produce 93,585,950 bushels of corn at an average of 100 bushels/acre, would require an additional 935,859 acres under cultivation. This acreage would reduce our present corn surplus acres, thus relaxing our surplus corn crop while stabilizing the price.

6) Economic Impact: Items required to serve the increased production.

a) Farm labor, transportation, manufacturing, etc.

b) New farm machinery, transportation, etc.

c) Fertilizer, seed, herbicide, etc.

d) Chemicals, sanitary products, vitamins, protein, etc.

The United States Farm Overproduction Fallacy
Pork Facts Analysis

Source of Material U.S.D.A. Bulletins	Food Consumption Statistical Bulletin #736 U.S.D.A. Pg. 48 Tab 34D	Food Consumption Statistical Bulletin #736 U.S.D.A. Pg. 48 Tab 34D	Food Consumption Statistical Bulletin #736 U.S.D.A. Pg. 48 Tab 34D	Livestock & Meat Statistics U.S.D.A. Bulletin #715 U.S.D.A. Pg. 158 Tab 183	Summary Columns 1-2-3-4	Livestock & Meat Statistics U.S.D.A. Bulletin #715 Pg. 159 Tab 186	Livestock & Meat Statistics U.S.D.A. Bulletin #715 Pg. 159 Tab 184	Livestock & Meat Statistics U.S.D.A. Bulletin #715 Pg. 159 Tab 184	Livestock & Meat Statistics U.S.D.A. Bulletin #715 Pg. 159 Tab 184
Applied Use	1 Domestic Pork Production (million lbs.)	2 Domestic Pork Consumption (million lbs.)	3 Military Pork Consumption (million lbs.)	4 Pork Exports to U.S. Terrorities (million lbs.)	5 Domestic Pork Consumption Above Production (million lbs.)	6 Pork Exports to Foreign Countries (million lbs.)	7 Pork Imports from Foreign Countries (million lbs.)	8 Live Animals Imported (No. Animals)	9 Live Animals Exported (No. Animals)
1970	14699	14661	210	119	291	75	491	67,832	24845
1971	16006	16127	183	120	424	78	496	77,532	17347
1972	14422	14712	128	123	541	113	538	89,032	12316
1973	13223	13298	107	101	283	178	533	87,615	16802
1974	14331	14493	101	96	359	108	488	196,347	15801
1975	11779	11852	107	101	281	216	439	29,768	15960
1976	12688	12667	105	105	189	317	469	45,577	10768
1977	13248	13202	113	105	172	294	440	43,030	10212
1978	13393	13293	118	134	152	287	495	202,446	12717
1979	15450	15353	109	158	170	290	499	136,556	13449
1980	16616	16576	118	165	243	241	550	247,228	16291
1981	15872	15926	120	145	319	307	541	145,695	24124
1982	14229	14424	96	151	442	214	612	294,937	26830
1983	15199	15368	89	142	400	219	702	447,465	23326
1984	14812	15396	86	147	817	164	954	1,322,017	14332
1985	14807	15642	78	131	1044	128	1128	1,226,571	18160

Column #1 Domestic Pork Production Includes Column #8. To arrive at our own Domestic Production Column #8 must be subtracted from Column #1. Column #8 must be first converted to dressed weight. Dressed weight = 71% of live weight.

Summary of Parity From U.S.D.A. Publications

Table 160—Price per hundredweight received by farmers, parity and price received as percentage of parity meat animals, United States, 1970-85

HOGS			
Year	Price Received By Farmers 1/ 3/	Parity Price 2/	Percentage of Parity
1970	$ 22.80	$ 27.80	% 82
1971	17.50	29.50	59
1972	25.20	30.50	83
1973	38.60	35.60	108
1974	34.30	43.10	80
1975	46.80	47.60	98
1976	43.90	52.40	84
1977	39.60	55.40	71
1978	46.60	61.10	76
1979	42.20	70.30	60
1980	38.30	77.20	50
1981	43.80	82.30	53
1982	52.80	84.80	62
1983	47.00	88.20	53
1984	47.90	90.20	53
1985	43.80	89.10	49

1/ Unweighted calendar-year average price.
2/ Unweighted average of parity prices published monthly.
3/ Annual average is for the 12-month period beginning December previous year through November of current year.

Information compiled by Harold D. Beyeler
(703) 337-2049
Mike Toner
(703) 377-6729
P.O. Box 596, Stuarts Draft, VA 24477

Table 415.—Pork cuts (less than carlots): Wholesale price per 100 pounds, New York, 1970–84

Year	Loins, fresh, 8- to 14-lb. average	Butts, Boston style, 4- to 8-lb. average	Hams, smoked, skinned, 14- to 17-lb. average [1]	Bacon, smoked, slab, 8- to 12-lb. average	Year	Loins, fresh, 8- to 14-lb. average	Butts, Boston style, 4- to 8-lb. average	Hams, smoked, skinned, 14- to 17-lb. average [1]	Bacon, smoked, slab, 8- to 12-lb. average
	Dollars	Dollars	Dollars	Dollars		Dollars	Dollars	Dollars	Dollars
1970	56 86	43 43	51.68	48.40	1978	109 15	71.77	99.63	....
1971	49 85	39 35	48 85	36 11	1979	107 65	94 13	94 38	....
1972	64 46	52 26	56.97	46 70	1980	101 14	87 46	88 99	....
1973	81.91	71 08	....	52.14	1981	113 70	97 56	95.55	....
1974	78 56	61 98	....	....	1982	111.51	91.12	91 47	....
1975	99 28	86 44	89.15	....	1983	115 91	96.07	95 54	....
1976	97 68	81 13	91.06	....	1984	115 81	96 85	99 57	....
1977	95.25	75 98	89.08	....					

[1] Delete word "smoked" after 1974.
Agricultural Marketing Service

Mr. Chairman, Members of the Economic Development Committee, Fellow Farmers and Citizens.

My name is Joe Vogelsberg and I am a small hog farmer. Yes, times are hard on the farm. The number of farmers in the state is going down. But should Kansas abandon the family farm and actually stab those who have been trying to hang on in the back by loosening the corporate farming law??

Yesterday Representative Heineman indicated that if we produced more hogs in the state of Kansas the price would rise. They say we have a surplus and that is why prices are so low. Now at least one of these lines is pig hockey.

I am a small farmer. I own 120 acres and rent a little more. The income I have to live on comes from an 18 sow furrow to finish hog operation. I raise all of my own corn. I don't use any herbicide, insecticide, or commercial fertilizer on my corn. Instead I rely on a rotation and mechanical and physical cultivation. I use old worn out machinery. My hog facilities consist of a few worn out Meyer hog sheds and old feeders I purchased used. I have a very low cost of production. But since I am a small farmer, only producing about 300 head of fat hogs a year, I must receive a good price for them to make enough money to live.

Let's use $20,000 as the amount of money that a family must have to meet its living expenses. And lets say my cost of production excluding any labor or profit for management is 25¢ a pound. To cover that 25¢ and make $20,000 on those 300 hogs I need a price of 54¢ a pound. If the price of hogs is below 54¢ I must start thinking of ways to increase my income. Now if I get behind on my bills and farm payments and went to talk to my banker. And he saw that my actual cost of production on my hogs was so low what do you suppose he'd tell me to do??? Raise more hogs.

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Well, I've described to you my operation. To raise more hogs I'd have to improve my facilities, to raise more hogs I'd have to raise more corn. The only way to do that would be to go 2 or 3 years in a row with corn. That would destroy my rotation and then I'd have to start using chemical fertilizer, herbicide and insecticide. Of course I could always buy more land, which would require bigger and better machinery. All of this, just to maintain income of $20,000 to feed my family. I don't think I could borrow the money to do any of these things. And I don't think I should take the money even if the bank would give it to me. So I would most likely get an off the farm job.

If the state of Kansas has corporate owned hog facilities maybe I could work for them.

Now, I hope it is obvious to everyone that the larger the hog facility the less profit per hog needed. If I raise a million hogs and make $2.00 a head profit. I made some pretty darn good money. But, $2.00 a head profit on 300 hogs isn't very much.

Now lets say that a corporate hog facility that produces 3,000,000 head of hogs a year employs 10 people and they pay each employee $20,000, now that's 200,000 spent on the state. Any profit and many of the expenses will be spent and purchased out of state. The State Board of Agriculture said, that they would not support anything that would give a corporation an unfair advantage over a family farmer. Because of the unfair advantage of just existing. This corporate hog facility will put me and 999 other 300 head per year producers out of business. Now if those 3,000,000 hogs were raised on 1,000, 300 head hog farms you would have 300 families employed instead of just the ten. Instead of 10 X 20,000 spent in the state you would have 1,000 X 20,000 spent here or $20,000,000. So when you allow corporate owned hog facilities in the state you are trading

IS THAT ECONOMIC DEVELOPMENT??

I hope that I will be lucky enough to be one of the 10 hired hands for this corporation. What about the other 990 farm families. How much will it cost the state to take care of them???

The state of Kansas should be passing legislation to preserve the family farm system of agriculture because the entire economy of the state depends on it.

If a family has to raise 600 hogs to make a living instead of the 300 in this example only 10,000,000 is spent in the state because half as many farmers are producing those 300,000 hogs but if a family only had to raise 150 hogs, 40,000,000 would be spent in the state.

Because of the multiplier effect of the money turning over in the economy a family farm which grosses 50,000 a year puts $500,000 into the state's economy using 500,000 for each of our 1,000, 300 head hog producers that comes to <u>500 million</u>. Preserving the family farm <u>is</u> economic development. Loosing the corporate farm law is not.

You say you want processing plants. That's fine. I think that's <u>great</u>. But, let family farmers raise the hogs. As Mr. Holmes said yesterday. Is Kansas really serious about economic development? And as Mr. Beechman said, Don't overlook the trees in the forrest. Let's give some incentives to young beginning family farmers instead of to large corporations.

One final point. I like feeding hogs. I think grandma liked feeding chickens. Grandma quit feeding chickens because she could not compete with the large corporations in Arkansas.

<u>Please</u>, don't drive <u>me</u> out of the hog business.

February 3,1987

My name is David Biesenthal, of Wheaton, Kansas.
I am an individual and I oppose this House Bill #
for letting corporate farming come into Kansas. As a small individual I can not see any good from it.

Job? Corporations More modern-take less work-automation
Question? How many are they putting out of work in the first place?
1) Present farmers.
2) My local hog market (3 to 4 families app. 12 people)
3) Truckers hauling hog to the packer.
4) Feed dealers.
5) Present packers. (Corporations will build packing units too.)

ARE THEY REALLY CREATING JOBS?

Look what has happened in the past!
Look at the chicken industry.
1) Years ago most every farmer had chickens for the egg money bought the groceries.
2) My Dad had to quit because no one would buy eggs from an individual.
3) Huge operations.(No competition controlling the market.)

Look what could happen in the future!
A big problem with supply and demand.
What is a small herd 200? 300? 400?...

1) I have 25 sows and can market approximately 400 hogs a year.
2) I have a finishing building less than 6 years old which cost more than my whole farm(80 acres).
3) This building is only equipped for hogs.
4) I and many others are still paying high rates of interest on confinement buildings.
5) Leave these building set empty and go to town to work still paying on something I can't use.
6) No one would want to buy it.

Summary: The family farmer is squeezed out and the corporations will control the market setting the price we pay for pork products in the store.

Production Holds In North Carolina

Even in a state known for its large-scale units, hog farms in North Carolina are getting fewer and larger, according to North Carolina State's Extension Swine Specialist J. R. Jones.

A survey shows 78 producers have 500 sows or more; 29 have 1,000 sows or more. The state survey found 8,183 producers, a drop of 12,755 from a similar survey conducted in 1974.

In 1985 the average herd had 40 sows compared to only 15 in 1974. Jones noted that although producer numbers dropped 61 percent from '74 to '85, pork volume increased slightly.

North Carolina ranks seventh in the nation with gross sales of $436 million. ◊

Attachmt 10
2/3/87

TO: Chairman Phil Kline, Economic Development Committee

FROM: John Stitz, Dir. Catholic Rural Life, Archdiocese KC Kansas

Subject: Hearings on HB 2076 - February 3, 1987

This office, affiliated with the National Catholic Rural Life Conference, supports family farm agriculture. We believe that the responsibility of stewardship on earth is a commandment of God, best fulfilled by family farm agriculture.

The social and spiritual values which guide rural people in stewardship, food production and building communities are fundamental to a democratic society, and the preservation of human rights. But, family farm agriculture is in trouble because of depressed income. Vertical integration and the concentration of capital, as facilitated by HB 2076, will lead to less farm income, and more farmers leaving agriculture.

There is no way individual farmers can compete with the vertical integrators. This was clearly illustrated by trends in the poultry industry. Families need viable economic variables if they are to survive these hard times. Vertical integration reduces diversification opportunities.

As leaders of our state we ask you to carefully consider the impact of this proposed economic trend, vertical integration, upon individuals, families and rural communities. At least, wait with law changes until impact of this policy has been independently and carefully researched.

Thank you.

Att. 11
2/3/87